

CITY OF MINNEAPOLIS

Housing Investment Analysis: 2008-2014



Prepared for:

The City of Minneapolis

Residential & Real Estate Development

A work unit of the Department of Community Planning & Economic Development

Sponsored By:

Local Initiatives Support Corporation

Presented by:

Corporate F.A.C.T.S.

Cover Photo Credits: Green Homes North



Contents

Table of Contents	Page
Letter from the Manager of Residential & Real Estate Development	4
Executive Summary	5
Investment Highlights	6
Investment Analysis Report	8
• Overview of Low-Density Housing Investments	
• Investment Programs	
	12
Analysis of RRED's Investments	
• Investment Results	
• RRED Value and Affordability Gap Funding Maps	
• Affordability Gap Assistance	
• Affordability Gap Assistance: Who was served?	
• Market Analysis	
Looking Ahead	24
• Vacant Property Disposition	
• Resource Availability	
• Best Practice Research	
• Recommended Strategies for Consideration	
Appendix	34
• Northside Home Fund Summary	
• Community Engagement Summary	
• Survey Results	
• Definitions	

Executive Summary



Community Planning and Economic Development

105 Fifth Ave. S. - Room 200

Minneapolis, MN 55401

TEL 612.673.5095

www.minneapolismn.gov

Community Stakeholders,

On behalf of the Community Planning & Economic Development Department (CPED) for the City of Minneapolis, the Residential & Real Estate Development Work Unit (RRED) is pleased to present this report on the impact of our Foreclosure Recovery strategies since 2008. Minneapolis was hit hard by the housing crisis and Great Recession when foreclosures increased dramatically. The City received five NSP awards through Minnesota Housing Finance Agency and the U.S. Department of Housing and Urban Development (HUD). The NSP resources were combined with other city, state and foundation resources to address foreclosed or abandoned properties in the City. Most importantly, resources invested successfully returned families to these vacant homes.

The City invested \$115 million in housing development (new construction and rehabilitation), land banking, home improvement loans and down payment assistance to homebuyers. A majority of these investments were concentrated in areas hardest hit by foreclosure to restore a healthy housing market and increase impact in these target areas.

RRED commissioned this report, through a partnership with Local Initiative Support Corporation and Corporate FACTS, to analyze the impact and outcomes of our investments. It is the intention of the City to use the results of this analysis as the framework for continuing the stabilization work that these investments have jumpstarted. Additionally, the City will seek input and build consensus with city officials, funders and affected communities to determine how to best dispose of remaining RRED properties and allocate future program funds.

Minneapolis is starting to see home prices approach or exceed pre-recession values in certain neighborhoods. But we still have more to do to ensure all families and residents have the opportunity to live and own homes in safe and vibrant neighborhoods. We look forward to working with you to create more opportunities for homeownership and increase the quality of life in all neighborhoods.

Sincerely,

Elfric K. Porte, II.

Manager, Residential & Real Estate Development



Neighborhood Housing Investment Analysis

Executive Summary

The City of Minneapolis Residential & Real Estate Development (RRED) work unit has been making significant strides to build neighborhoods of opportunity. Over the last eight years the City invested \$115 million in neighborhood stabilization efforts to address blight, build and rehabilitate affordable housing, maintain existing owner occupied homes, and provide new homeownership opportunities. Of the \$115 million, RRED directly invested \$40 million into single family homeownership and low density (eight or fewer units) rental housing projects.

At the peak of the foreclosure crisis, Minneapolis experienced a rapid plunge in housing values and a precipitous drop in housing demand. The Twin Cities was in the top 10 highest rated metropolitan areas for fraudulent mortgage activity in the country which disproportionately affected people of color and contributed to the recession. In response to the foreclosure crisis, CPED implemented a neighborhood investment strategy called the 3 Point Plan for Foreclosure Recovery and Neighborhood Stability in prevention, reinvestment and market repositioning. The resulting strategies focused on housing development, down payment assistance, mortgage financing, blight reduction and other revitalization measures. The plan was bolstered by state, federal and philanthropic investments aimed at addressing the residual effect of the recession.

The results are impressive. Neighborhood stabilization efforts leveraged \$126 million of private capital, helped over 700 families achieve the American dream of homeownership and produced over 400 units of affordable rental and owner-occupied housing. The \$40 million investment yielded a 3:1 return on leverage, over 200% return on investment based on increased property values and a 3% annual gain in property taxes. In addition, 40% of homeowners that received down payment assistance and 60% of homeowners that purchased a subsidized home were people of color helping to reduce racial equity disparity gaps. From a market value perspective, in most cases, neighborhoods targeted for concentrated investments fared better than similar neighborhoods that were not targeted.

Continuation of neighborhood stabilization investments is critically important. An estimated \$32 million is required to build new or renovate homes on over 600 City-owned vacant properties. New resources and significant leverage are required to meet affordable housing demands, dispose of the city's vacant property portfolio and address other blighting influences in target neighborhoods.

This report highlights the outcomes achieved over the last eight years and offers a series of recommendations to achieve higher impact and finance future neighborhood improvements. Continued targeting of resources, leveraging funds available for affordable housing, partnering with other stakeholders and developing comprehensive investment strategies are worthy of consideration.

Investment Highlights

The investments made by RRED were guided by a well-designed plan carried out by a cadre of partners including community-based organizations, private and non-profit developers, contractors, counseling agencies and several City departments.

Outcomes from the \$115 million of City of Minneapolis investments are summarized below (See Note 1.):



- ◆ \$32 million in first mortgage loans were funded through mortgage revenue bonds, which served 266 new homeowners.
- ◆ \$15 million provided home improvement loans to 1,620 owner-occupied homes for needed health and safety repairs; homeowners served by the program had an average income of \$36,000 per year.
- ◆ \$16 million acquired 477 vacant or abandoned residential properties, demolished 258 blighted structures, and maintained property until redeveloped. Of the 258 properties demolished, 20 received new construction financing from CPED. The remaining vacant lots are slated to be sold for new home construction or held to be assembled with additional sites for larger development projects. A portion of land banking investments were provided to CPED's Regulatory Services Department; outcomes of those funds are not included in this report.
- ◆ \$34 million invested in housing production, created a total of 429 housing units including 277 ownership units and 152 scattered site rental units.
- ◆ 710 homeowners received down payment assistance totaling \$7 million; 175 of these homeowners purchased a home that received value gap subsidy. Over 40% of homeowners that received down payment assistance and 60% of homeowners that purchased a subsidized home were people of color.
- ◆ \$29 million was spent on down payment assistance and subsidized housing development focused in nine neighborhoods with the highest concentration of mortgage foreclosures and households living in poverty. Further clustering of investments in North Minneapolis was driven by the 3 Point Plan for Foreclosure Recovery and the North Side Home Fund. The nine targeted neighborhoods in Minneapolis experienced a higher rate of appreciation in housing values than neighborhoods with similar characteristics that did not receive significant investments. (see note 2)
 - ◆ North Minneapolis: Folwell, Jordan, Hawthorne, Willard-Hay, Near North, and Harrison
 - ◆ South Minneapolis: Central, Powderhorn Park, and Bryant.
- ◆ Piloted the new, innovative national program from the National Community Stabilization Trust to address the housing foreclosure crisis by acquiring bank owned, foreclosed properties.
- ◆ The City of Minneapolis provided financial support to the Minnesota Homeownership Center (See Note 3).
 - ◆ 2,567 (48%) foreclosures prevented of 6,198 households served or receiving services from 2008-2015.
 - ◆ Mortgage Foreclosure Prevention Counseling shows that it costs approximately \$450 to prevent a foreclosure, where the estimated cost is nearly \$80,000 once a property is in foreclosure.

1. Affordable Housing Trust Fund investments are not included in this analysis.
2. In some neighborhoods investments touched only small percentage of housing values making it difficult to attribute the difference solely to RRED investments.
3. Further analysis on public service programs were outside the scope of this report.



Photo Credit: Green Homes North

Moving Forward

Moving forward, RRED will experience a 63% budget reduction for low-density housing if additional funding is not secured. Programs financed by federal stimulus dollars and mortgage revenue bonds, which comprised a significant portion of the budget over the last eight years are now depleted. RRED manages nearly 600 vacant lots and structures that require disposition. Many lots were acquired with Neighborhood Stabilization Program funds, which requires disposition within 10 years of grant closeout.

RRED is actively marketing all of its inventory and working to close racial disparity gaps. However, financing for value and affordability gap is a continued need. The questions of how and where limited resources are invested in the future pose several challenges and opportunities. The following recommendations are offered for consideration:

1. Direct a significant portion of available resources to clearly defined target areas to achieve greater impact. Best practice research suggest target areas should comprise fifteen blocks or less using a comprehensive development approach to address issues such as safety, employment, economic development and other quality of life elements. Selected target areas should take advantage of and dispose of vacant properties or land owned by RRED.
2. Utilize HUD's Neighborhood Revitalization Strategy Area (NRSA) tool to deploy Community Development Block Grant (CDBG) funds in more impactful and non-traditional ways. The premise of an NRSA is that a concentrated investment of resources in a limited area can have substantial impact for a targeted revitalization area.
3. Leverage city funds with The Minnesota Housing Finance Authority's Fix-Up program to offer low-cost home repair financing to eligible homeowners. Using CDBG funds to write down the interest rate of an MHFA loan to make it affordable to low-income families could leverage CDBG funds up to a 4:1 basis and significantly reduce loan origination and servicing costs.
4. Continue to serve a range of income levels and diverse households to provide more choices and promote de-concentration of poverty.
5. Allocate a portion of affordability gap financing (such as down-payment assistance) for city-owned properties in stronger market areas where development subsidies are not required. This will provide low-to-moderate income families the option to live in higher opportunity neighborhoods.
6. Aggregate a pool of \$100 million to broaden resources available for community development utilizing City funding to better leverage private and philanthropic capital.

Low Density Housing Investments

Investment Objectives

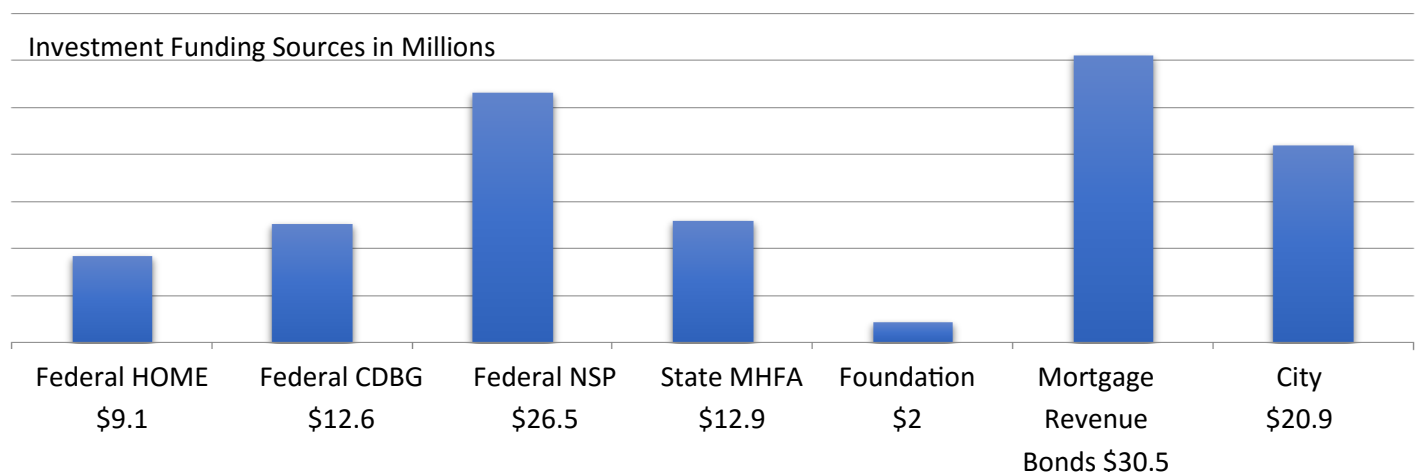
The rapid plunge in housing values across the country and a drop in housing demand resulted in high numbers of foreclosures and abandoned properties. The Twin Cities were in the top 10 highest rated metropolitan areas for fraudulent mortgage activity in the country which disproportionately affected people of color. The foreclosures were concentrated in north and south-central Minneapolis as illustrated in the 2008 Foreclosure Map. Over 50% of the foreclosures in the City occurred in North Minneapolis.

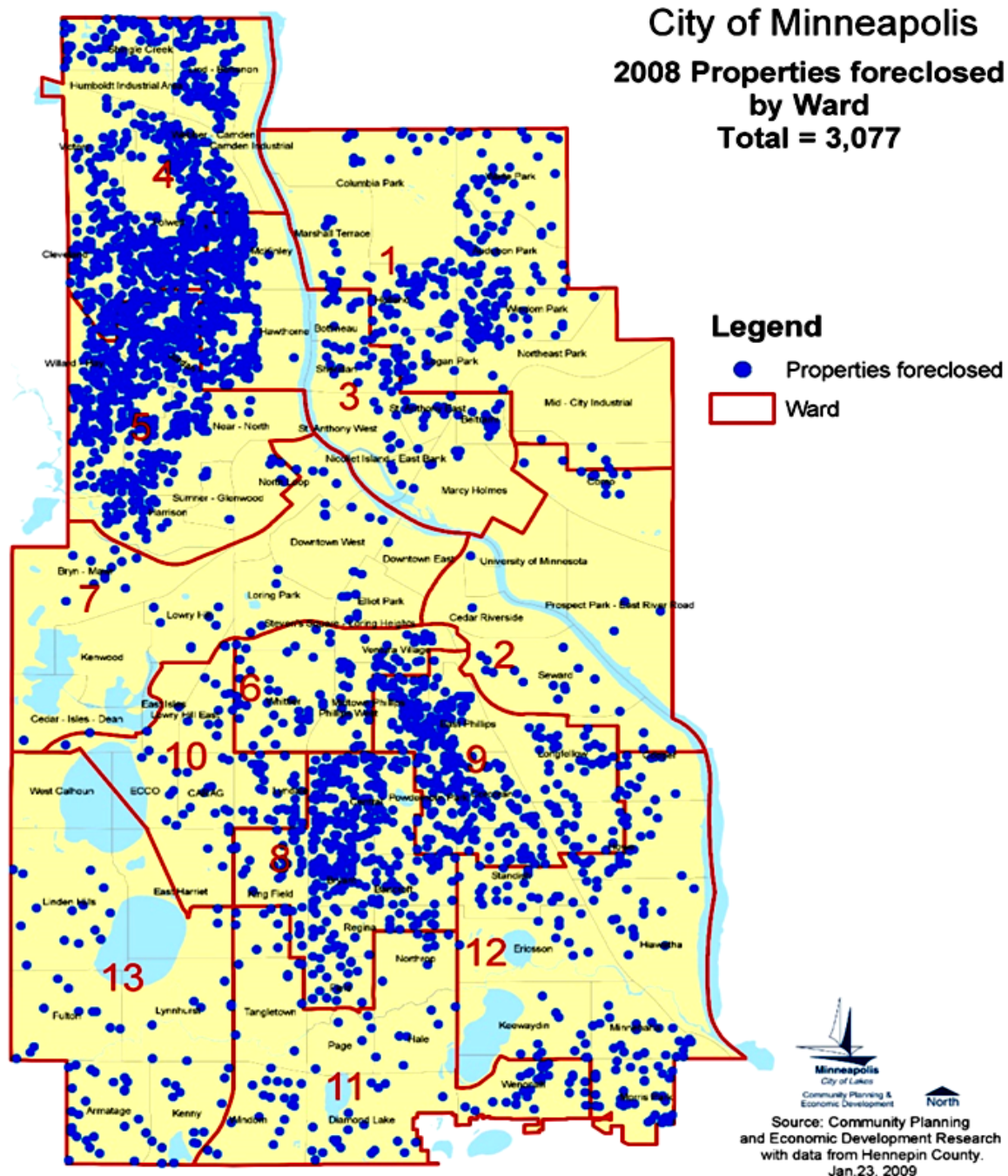
To prevent the spread of blight and to stabilize the most challenged housing markets, the City of Minneapolis designed a market intervention strategy, the 3 Point Plan for Foreclosure Recovery focused on prevention, reinvestment, and market repositioning. The strategy utilized a variety of funding sources to address conditions in the areas most affected by foreclosures including: owner-occupied housing development, down payment assistance, home repair loans owner occupied, rental housing development for very-low income families and demolition of blighted vacant properties that were not feasible for rehabilitation.



Sources of Funding

A total of \$115 million was invested from 2008-2014. The City of Minneapolis leveraged \$51 million of local funding with \$64 million from state, federal and philanthropic sources to invest in low-density housing, such as single family homeownership, small rental projects and neighborhood stabilization. Neighborhood Stabilization Program (NSP), one-time stimulus funding granted to the City by the U.S. Department of Housing and Urban Development (HUD) and the Minnesota Housing Finance Agency (MHFA), represents \$37 million or 32% of total funds. These resources are depleted. Mortgage Revenue Bonds and City of Minneapolis direct funding was about \$50 million or 43% of investments. Bond funds are also depleted. Foundations also invested over \$2 million.



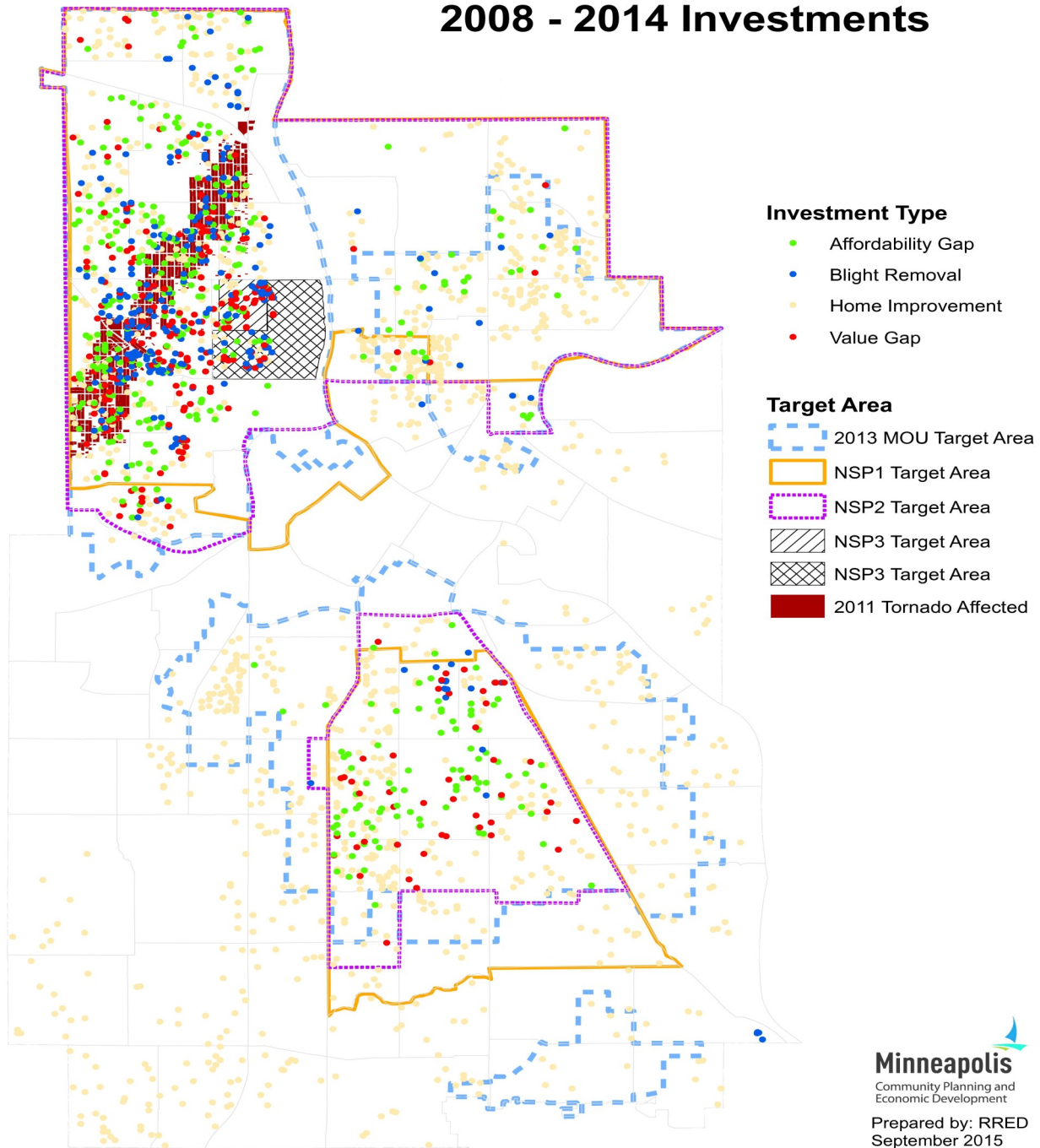


At the peak of the foreclosure crisis, over 3,000 homes were foreclosed upon in one year. When foreclosure could not be avoided, the City of Minneapolis created a strategy to prevent foreclosed or abandoned properties from becoming vacant, blighted, hazardous or targets for crime. Strategies included:

- Quickly acquiring and rehabilitating foreclosed properties.
- Working with the mortgage industry to restructure loans of qualified homeowners at risk of foreclosure.
- Working with the mortgage industry, realtors and government on innovative methods to speed resale and remediation.
- Working with the City's Regulatory Services and Police Departments, community organizations, and property managers to minimize vandalism.

Source: www.ci.minneapolis.mn.us/cped/foreclosure

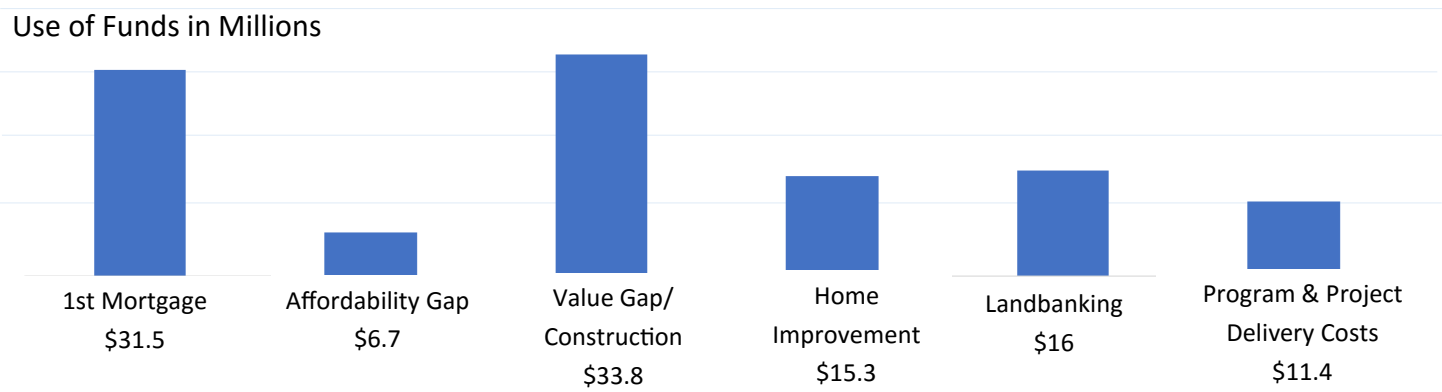
2008 - 2014 Investments



Minneapolis
Community Planning and
Economic Development
Prepared by: RRED
September 2015

The City's strategy overlapped target areas which increased the impact of investments made in home improvement, blight removal and value and affordability gap funding. Blight removal was primarily targeted in the NSP2 target area. Home improvement and affordability and value gap investments were scattered throughout the City of Minneapolis. The Memorandum of Understanding (MOU) target area was an agreement with Hennepin County to purchase tax forfeited property. The strongest concentration of investment followed the path of a 2011 Tornado that significantly impacted homes in North Minneapolis.

Investment Programs



Nearly 50% of funding was spent directly on homeowners to provide first mortgage financing, down payment assistance and home repairs. Value Gap financing or construction loans consumed 30% of funding. To date, about \$16 million was used to land-bank or maintain properties held in the City’s portfolio. Only ten percent was used to administer the program.

City of Minneapolis investments totaling \$115 million in five program areas:

- **1st Mortgage Financing – \$31.5 million**
First mortgage loans to new homeowners requiring repayment
- **Affordability gap financing – \$6.7 million**
Down payment assistance to qualified homebuyers
- **Value gap/construction financing - \$33.8 million**
Forgivable loans that:
 - 1) closed the gap between development costs and appraised values,
 - 2) ensured rental units remain affordable for 15 years, or
 - 3) provided construction financing that was repaid at closing.
- **Home improvement financing - \$15.3 million**
Loans provided to owner-occupants for home repair
- **Land-banking - \$16.0 million**
 - 1) Acquisition and demolition of blighted structures
 - 2) Vacant land was sold for new home construction or held (land-banked) for assemblage for larger development projects

Program & Project Delivery Costs incurred by the City to administer programs, acquire property, oversee development projects and monitor compliance totaled \$11.4 million.



Photo Credit: Green Homes North

Investment Results

The following analysis is limited to the \$40 million that RRED directly invested in the production of housing and down payment assistance. Although programs such as mortgage financing and home repair activities are critically important to the overall growth and health of the city, the impact and leverage is difficult to measure.

The City of Minneapolis also invested in rental projects through its Affordable Housing Trust Fund (AHTF), typically in projects that were 8 units or more. However, AHTF investments were not analyzed in this report.

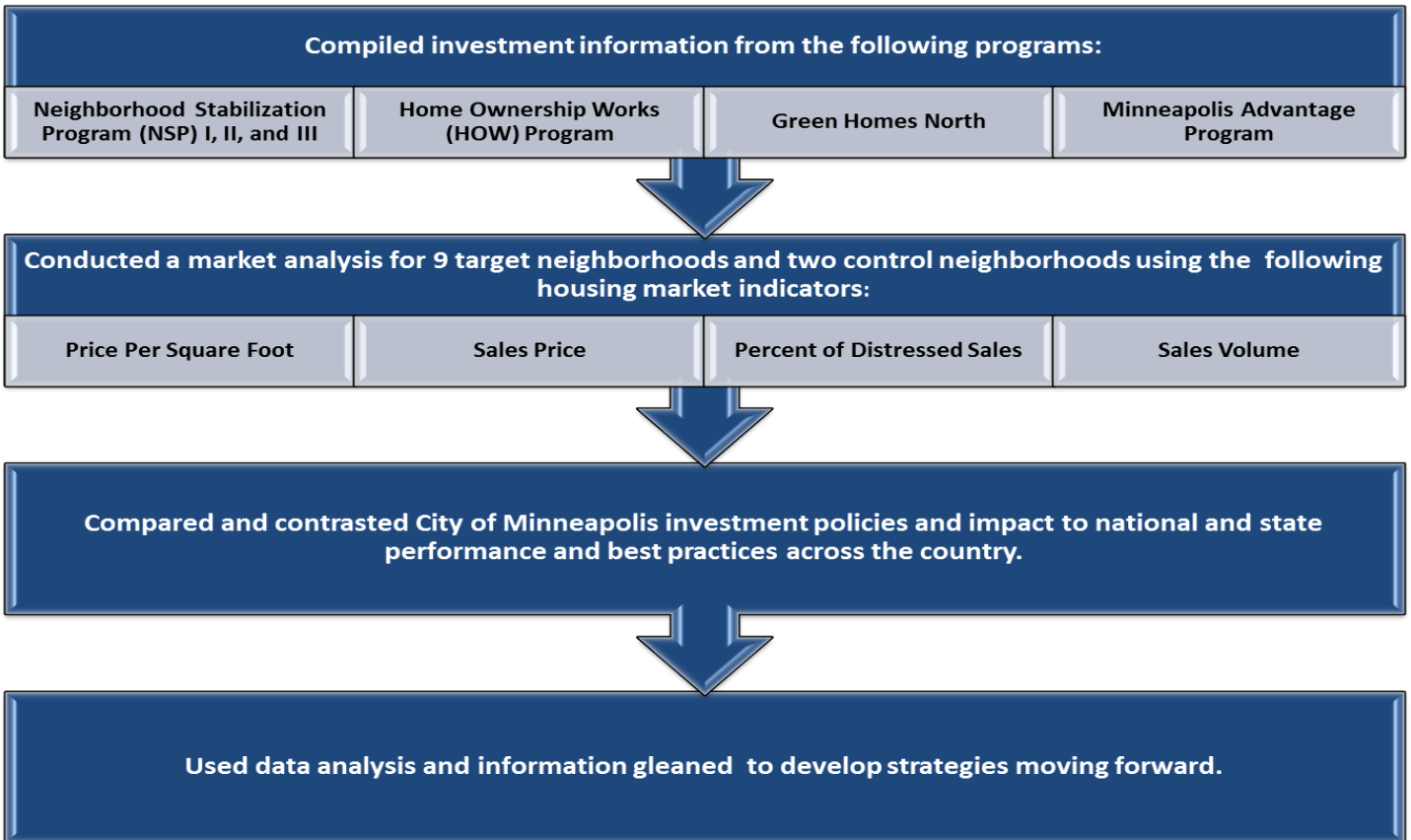
Purpose

- Evaluate the accomplishments and impact of RRED’s investments in single family and scattered site, low-density rental projects from 2008 – 2014
- Determine if layering multiple program investments in targeted areas caused a greater impact
- Use data analysis to inform future investment decision-making

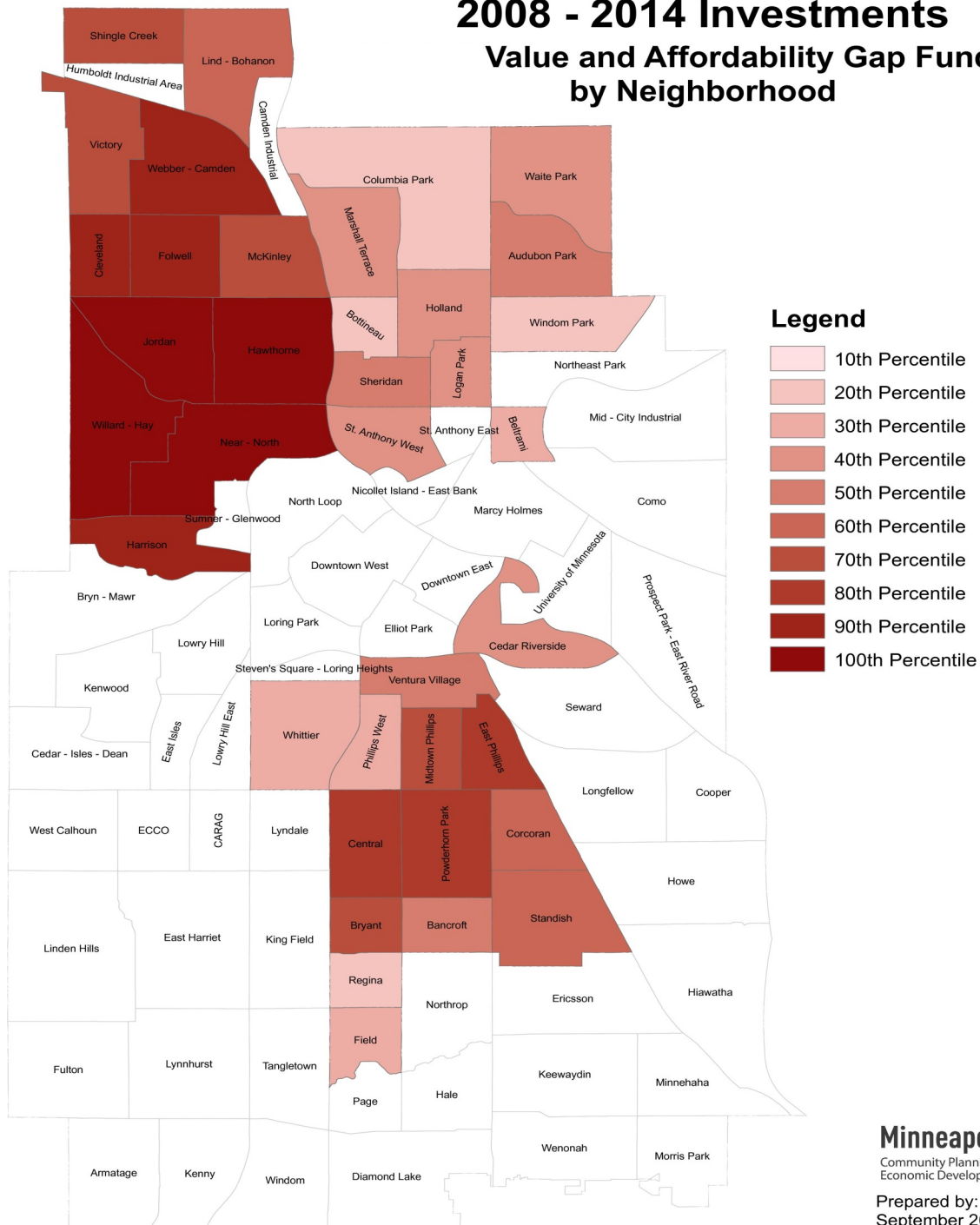
Scope

- Quantify and map public/private investments
- Review and analyze market impact of concentrated investments
- Conduct best practice research to inform strategies moving forward
- Suggest strategies the city and neighborhoods can deploy to continue this important work

Process



2008 - 2014 Investments Value and Affordability Gap Funding by Neighborhood

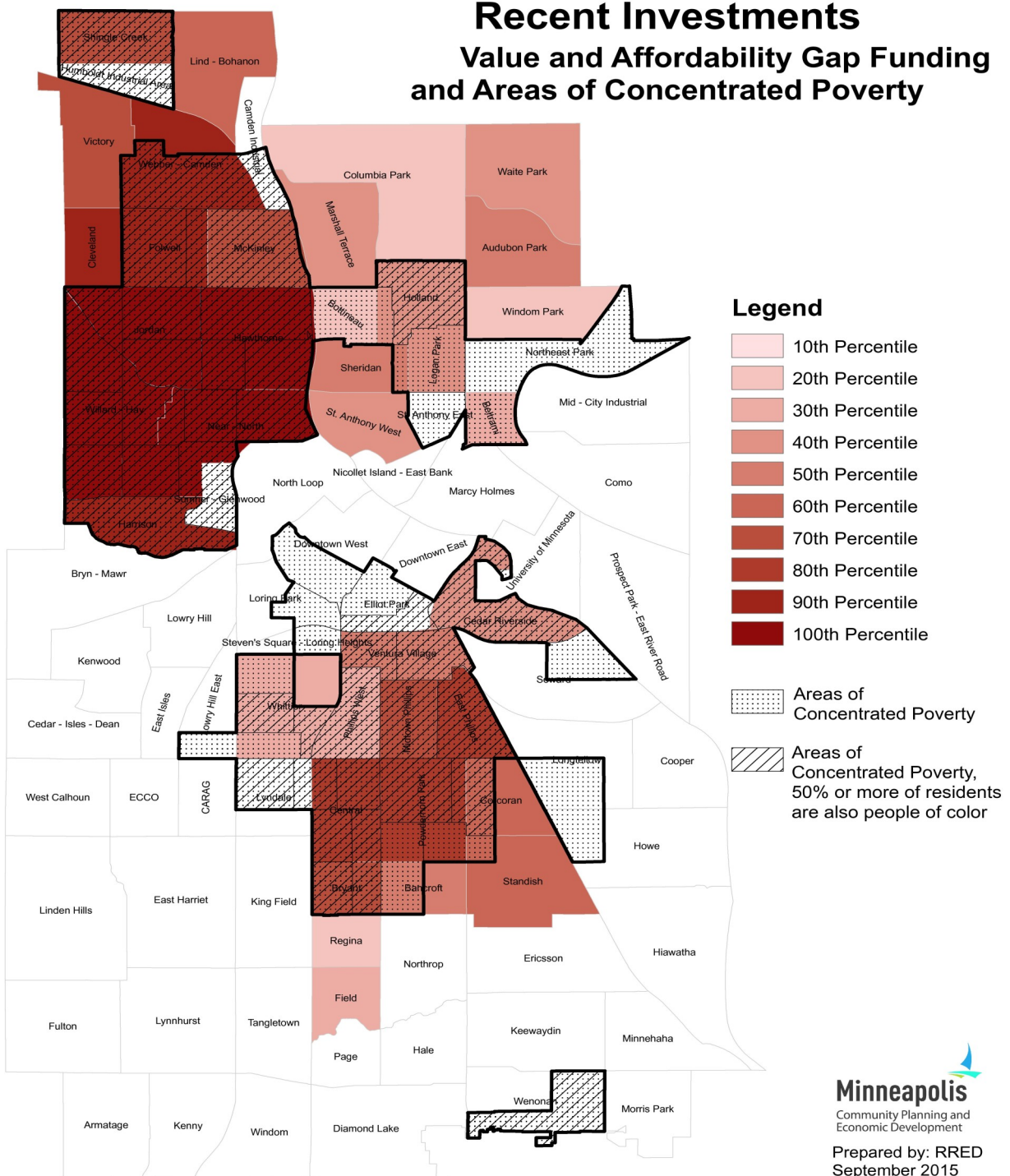


Minneapolis
Community Planning and
Economic Development
Prepared by: RRED
September 2015

The majority of Value and Affordability Gap funding was concentrated in the North Minneapolis area. This was also the area that was most impacted by the 2011 tornado. Investments in South Minneapolis surrounded Powderhorn Park. There were also investments made near the University of Minnesota in the Cedar Riverside area.

Recent Investments

Value and Affordability Gap Funding and Areas of Concentrated Poverty



Neighborhoods that received the most Value and Affordability Gap funding are areas of concentrated poverty where the majority of residents were people of color. There were over ten additional neighborhoods that had high concentrated poverty that received no Value or Affordability Gap funding.

Analysis of RRED's Investments

Affordability Gap Assistance

RRED provided \$6.7 million in affordability gap funding to help 710 families purchase a home with a total value of approximately \$80.9 million. Affordability gap investments were able to leverage \$11 in mortgage financing for every \$1 in city funding.

Affordability Gap Leveraged Investments*

Total Affordability Gap Funding	Homeowners Assisted	Estimated Sales Value	Mortgage Financing Leveraged
\$6.7 M	710	\$80.9 M	\$74.1 M



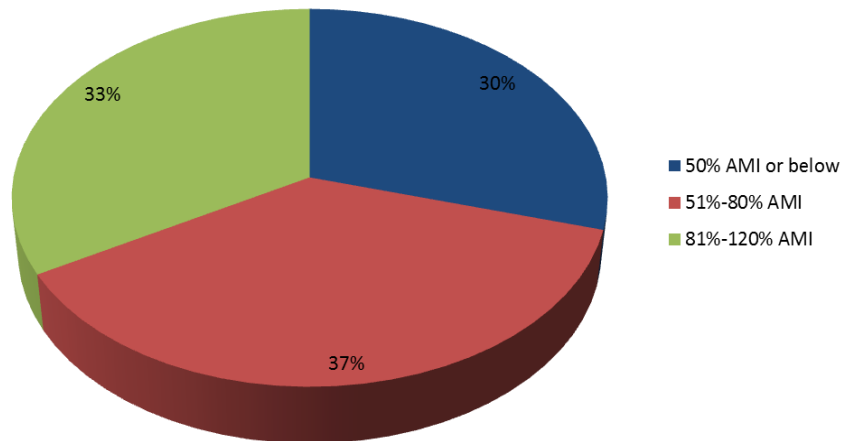
Photo Credit: Green Homes North

Affordability Gap Assistance

Down payment assistance

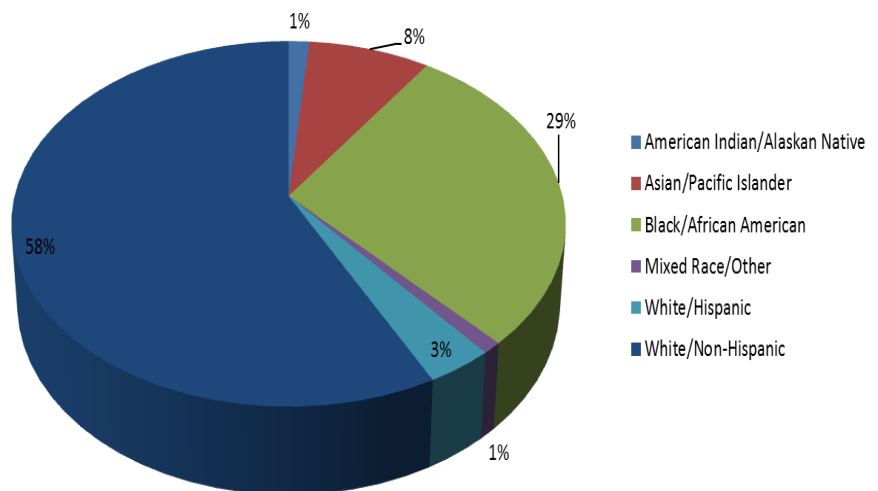
- Affordability gap or down payment assistance served a range of family incomes spread relatively evenly across the spectrum for very low income (below 50% AMI), low income (51-80% AMI), and moderate income (81-120% AMI) households.
- 70% of households served were one to two person households and 18% were three to four person households. The remaining 12% were households with five or more family members.
- 66% of households that received affordability gap assistance were previous Minneapolis residents, and 34% were residents that moved into Minneapolis typically from another city in the metropolitan area.

Income of Affordability Gap Recipients By Household



The program was able to assist families at all income levels including very low income families who most likely would not otherwise have been able to own a home. Due to the flexibility of NSP funds, families with incomes up to 120% of AMI were eligible to participate in the program.

Race/Ethnicity for Affordability Gap Recipients By Household



Nearly 60% of recipients who received down payment assistance were White/Non-Hispanic. Blacks/African Americans received less than a third of assistance. Other persons of color received less than 10% of Affordability Gap funding.

Analysis of RRED's Investments

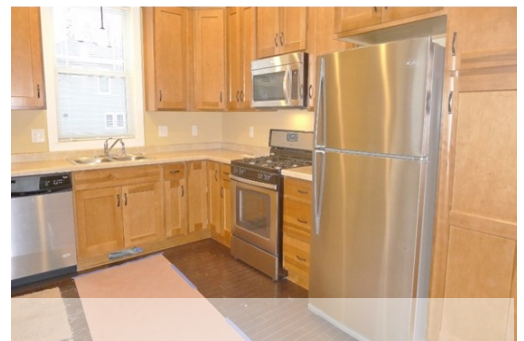
Value Gap Assistance

Of the \$34 million in construction or rehabilitation financing and value gap funding, \$26 million provided funding to subsidize the difference between the cost to construct a home and the value of the home.

- 277 homeownership units received value gap funding, at an average of \$57,000 per unit for rehabilitation projects and \$71,000 per unit for new construction projects.
- 152 scattered site, low-density rental units were assisted, at an average per unit subsidy of \$59,000.
- Value gap funds were more targeted than affordability gap funds, with 76% of value gap funding invested in the nine target areas.

Value Gap Funded Projects

	Owner Occupied	Rental Units	Total	Private Financing Leveraged
Value Gap Only	102	152	254	
Value Gap & Affordability Gap	<u>175</u>	<u>N/A</u>	<u>175</u>	
Total	277	152	429	\$46.7 million



Value Gap Assistance

Property Tax Increase

Value gap funded projects have a direct impact on annual property taxes generated as vacant land or structures are developed. Pre-purchase appraisals were recorded for a majority of projects that received value-gap funding.

The estimated annual increase in property taxes was valued at \$1.2 million based on a tax rate of 1.39% and 1.79% for ownership and rental projects, respectively. The \$26 million of city subsidy into these projects will be recouped over the next 20 years through the improved tax base.



Photo Credit: Green Homes North

Estimated Increase in Property Value and Property Taxes on Value Gap Projects

	Est. Increase in Property Value	Tax Rate	Est. Annual Increase in Property Taxes	Est. Average Increase in Property Taxes Annually Per Property
Ownership (277 units)	\$67 M	1.39%	\$0.9 M	\$ 1,300
Rental (152 units)	<u>\$17 M</u>	1.79%	<u>\$0.3 M</u>	\$ 2,000
Grand Total (429 units)	\$84 M		\$1.2 M	

Value Gap Assistance: Residents Served

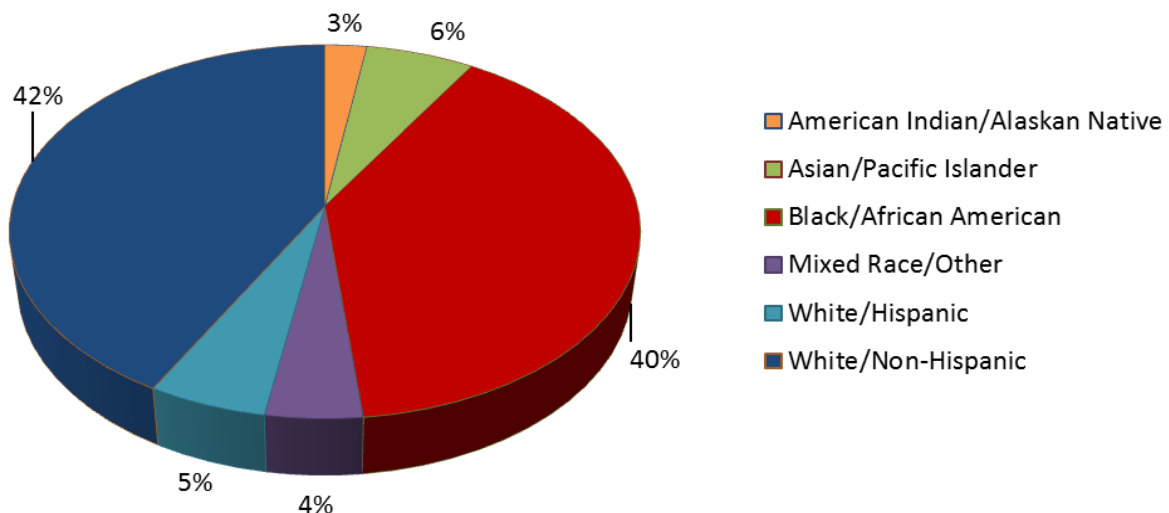
Rental Assistance

- Due to NSP program requirements, 100% of recipients had household incomes at or below 50% of area median income (AMI) which helped to meet NSP requirements that 25% of funds serve very low income families.
- All rental units will be affordable for households at or below 50% AMI for 15 years.
- 80% of households that occupied low-density rental projects were Black/African American households; very few American Indian, Asian/Pacific Islander, and Hispanic households were served by rental housing.
- Rental units were more likely to be occupied by existing Minneapolis residents (88% of renters).

Ownership Assistance

- Nearly 60% of homebuyers that purchased a RRED subsidized home were households of color.
- Developers that offered extensive pre-purchase counseling or atypical financing options had a proportionally higher rate of service to communities of color (83% rate of service) than developers that relied on conventional financing.
- Value gap assistance for ownership served a range of incomes, relatively evenly providing service for very low income (below 50% AMI), low income (51-80% AMI), and moderate income (81-120% AMI) households.
- 70% of households served were existing Minneapolis residents and 30% moved to Minneapolis from outside City limits.
- Approximately 20% of ownership units will be maintained as perpetually affordable to households at or below 80% AMI.

Race/Ethnicity of Homeowners in Value Gap Funded Projects



Market Impact

In addition to the direct impacts that RRED's investments provided, this analysis also looked at the impact these investments had within neighborhoods where they were concentrated. A similar analysis was conducted by HUD and the MHFA related to only NSP investments.



A national study commissioned by HUD of select NSP recipients found:

- No statistically significant differences in housing market outcomes between NSP tracts and control tracts. Market indicators studied included: vacancy rates, housing tenure, volume of sales, and housing sale prices.
- NSP investments may not have been sufficiently concentrated within census tracts. On average, NSP2 treated seven properties per tract.
- NSP grantees tended to acquire properties that required more substantial rehabilitation and properties located in difficult development areas with less investor interest.

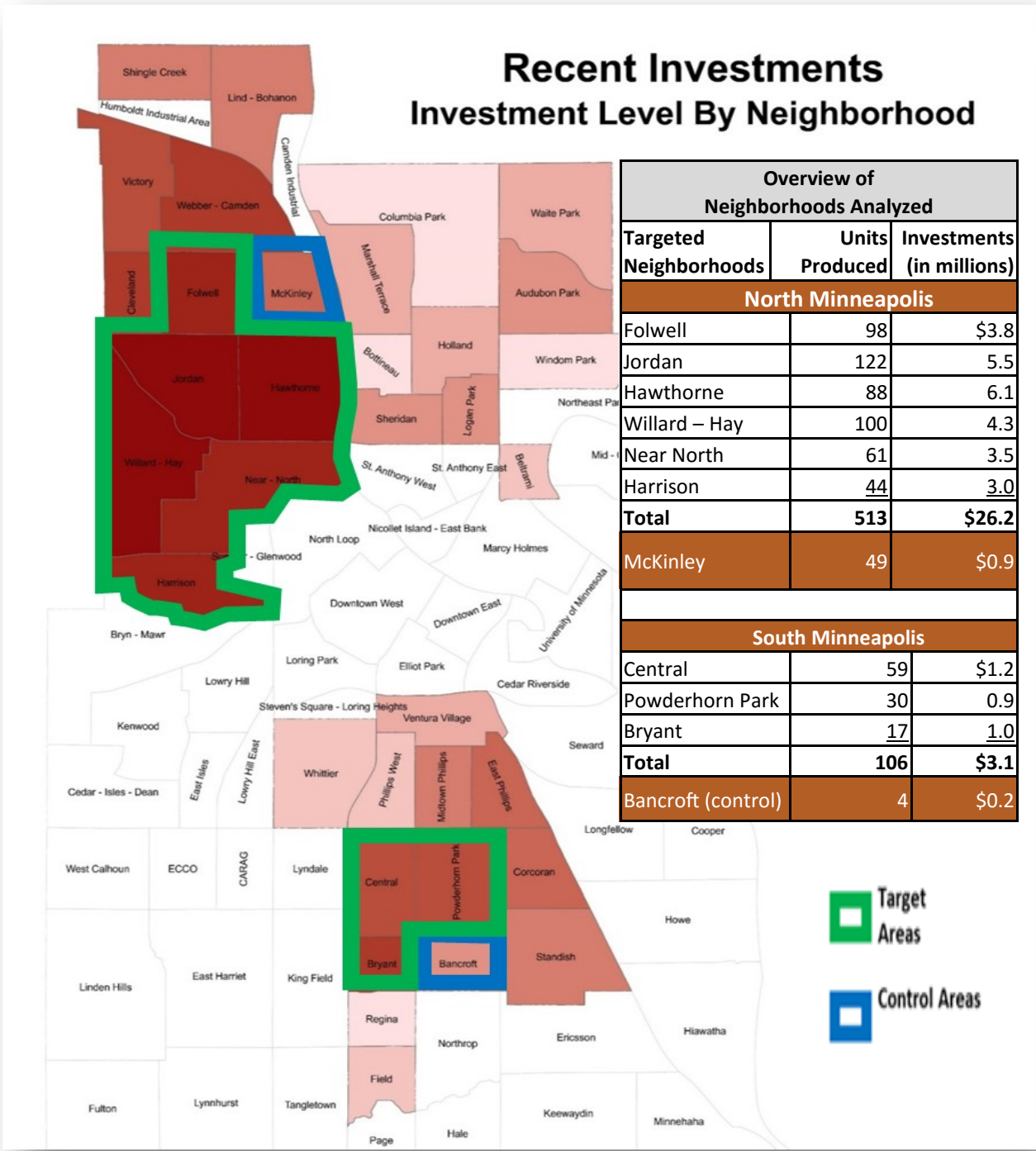
In contrast, a statewide study commissioned by MHFA of select NSP recipients found:

- In Minnesota, NSP activities were clustered in high-need communities.
- Targeted activities have had a positive impact on the housing market position relative to communities with similar characteristics and foreclosures but little to no NSP activity.
- In neighborhoods with targeted NSP investments when compared to communities with little to no investments:
 - Home sale prices declined less;
 - Foreclosure rates declined significantly; and
 - Vacancy rates declined.

Based on these two studies, NSP investments in Minnesota, particularly in Minneapolis, were more targeted than national NSP investments. This resulted in stronger neighborhood impact than a majority of other NSP recipients across the county.

Source: Evaluation of the Neighborhood Stabilization Program 2, Commissioned by HUD; Preliminary Impact of the Neighborhood Stabilization Program in Minnesota, Minnesota Housing Finance Agency; 06.25.2014

City of Minneapolis Market Analysis

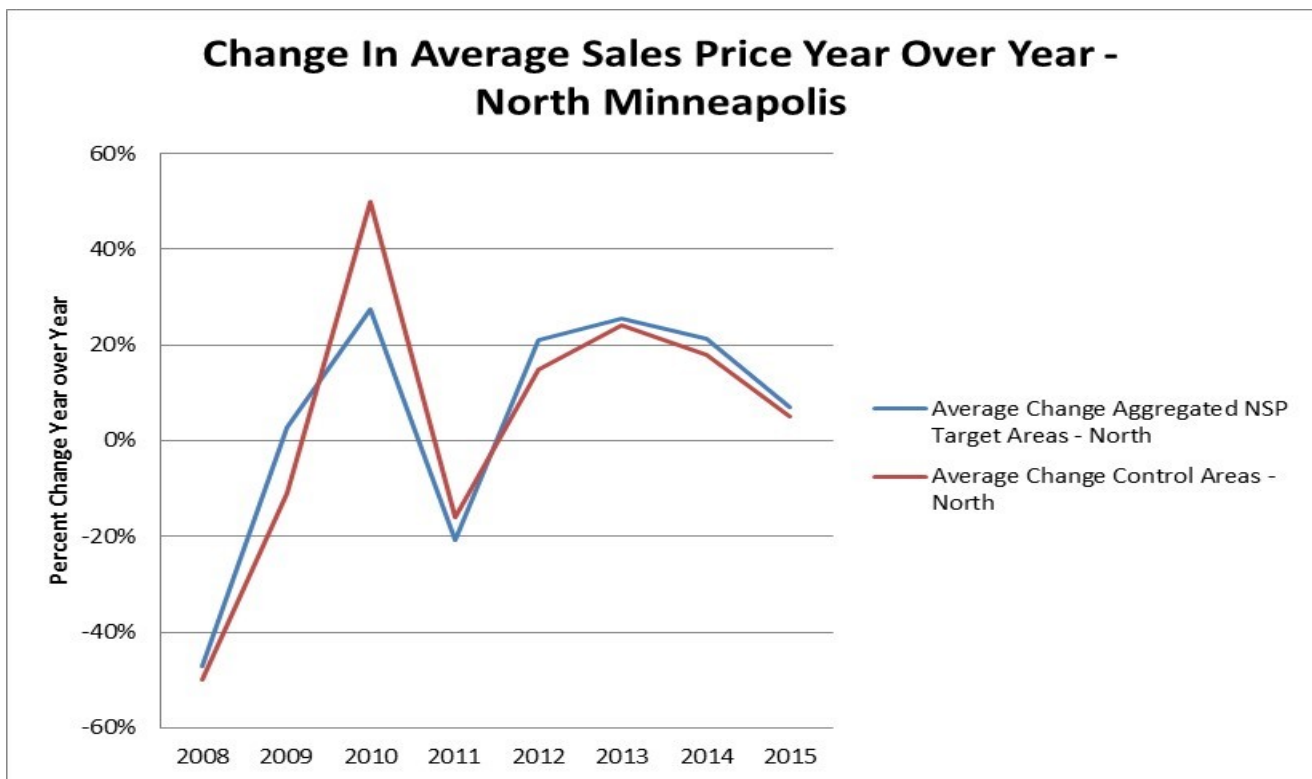


\$29 million or 72% of RRED’s \$40 million of investments were concentrated in nine neighborhoods in North and South Minneapolis. Market data from these nine neighborhoods were compared to control neighborhoods in North and South Minneapolis, McKinley and Bancroft respectively. In general, neighborhoods targeted for concentrated investments fared better than neighborhoods receiving much smaller investments.

North Minneapolis Investment Impact

Investments were more concentrated in North Minneapolis where more significant differences are seen between target and control neighborhoods as compared to South Minneapolis. After seven years of concentrated investments, market analysis in North Minneapolis showed:

- Price per square foot in target areas increased at a higher rate than the control neighborhood.
- Hawthorne, Willard-Hay, and Near North 2015 sale prices have rebounded to exceed 2007 levels.
- North Minneapolis neighborhoods tended to have lower sale prices and lower rates of homeownership than South Minneapolis neighborhoods (with the exception of Willard-Hay). Neighborhoods with lower rates of homeownership also tended to have lower average sale prices.



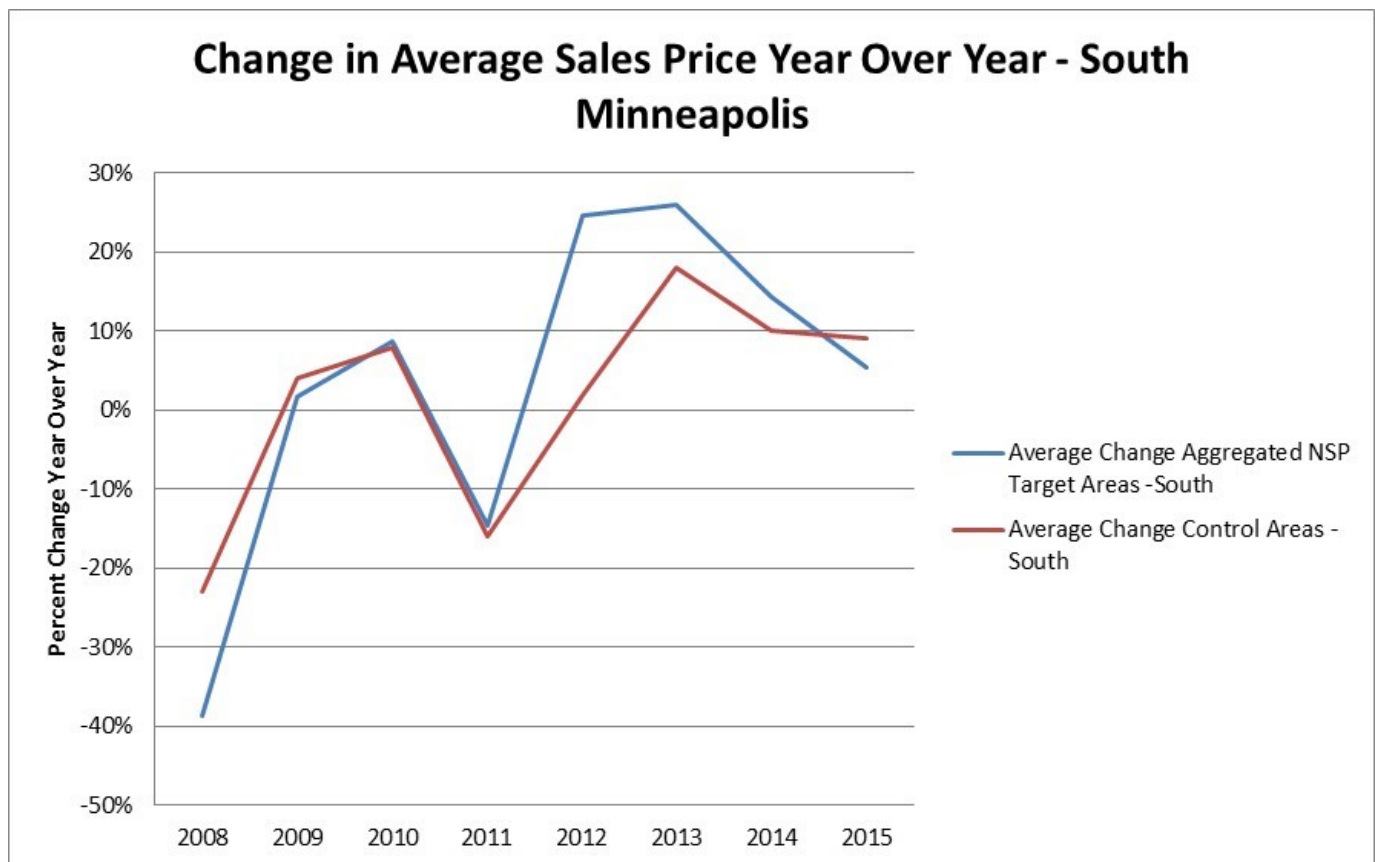
Sales subsidized by RRED ranged from 4% to 9% of total sales in the six target neighborhoods. When total RRED's investments were considered, they impacted 4.7% to 12.7% of the total properties in the six neighborhoods. Although these areas received the most investments, it was still relatively small when compared to the size of the neighborhood.

Given the small percentage of sales that are attributable to RRED's investments, it is difficult to associate the market improvements solely to the investments with the exception of Harrison and Hawthorne. In these Harrison and Hawthorne, home sales that received RRED funding were 9% and 8% of total sales, respectively. Total RRED's investments, including homeowner occupied and rental units, compared to total properties in these neighborhoods were 12% and 13%, respectively. The greater concentration of RRED's investments likely had a positive influence on both the increased percentage of owner-occupied properties and improvement of the overall neighborhood market.

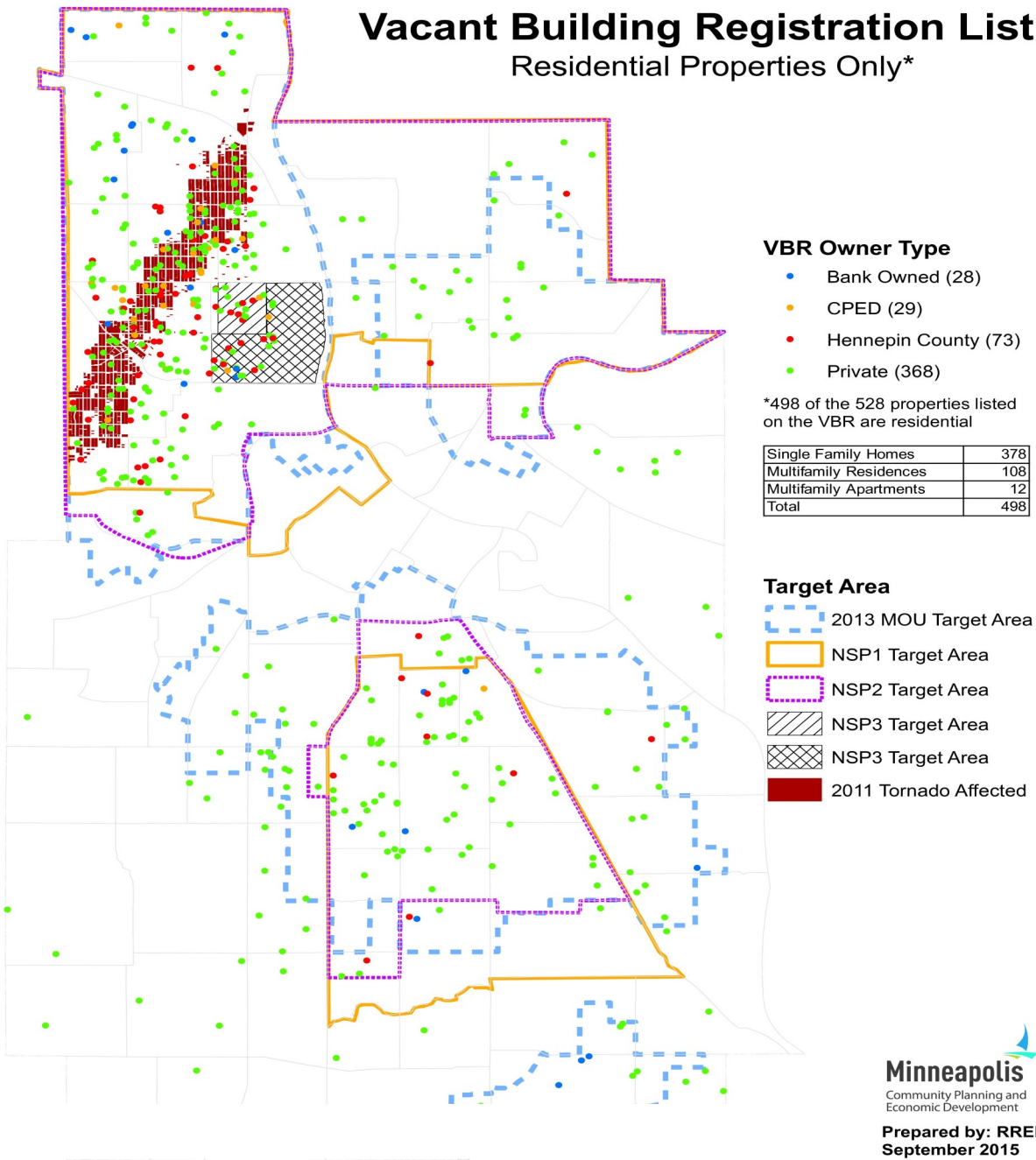
South Minneapolis Investment Impact

In South Minneapolis, when compared to the control neighborhoods, areas with concentrated investment:

- Had greater declines in price per square foot in the early years of the recession.
- Experienced year over year increases in value at a faster rate between 2011 and 2014, and are now leveling off.
- Achieved faster rates of appreciation based on Price per Square Foot.
- Experienced a lower percentage of distressed sales between 2013 and 2015.
- Appear to be recovering at a faster rate than North Minneapolis neighborhoods based on assessor's data of taxable value (total market value).
- Tend to have significantly higher average sale prices, and higher rates of owner-occupied properties (as represented by homestead status).



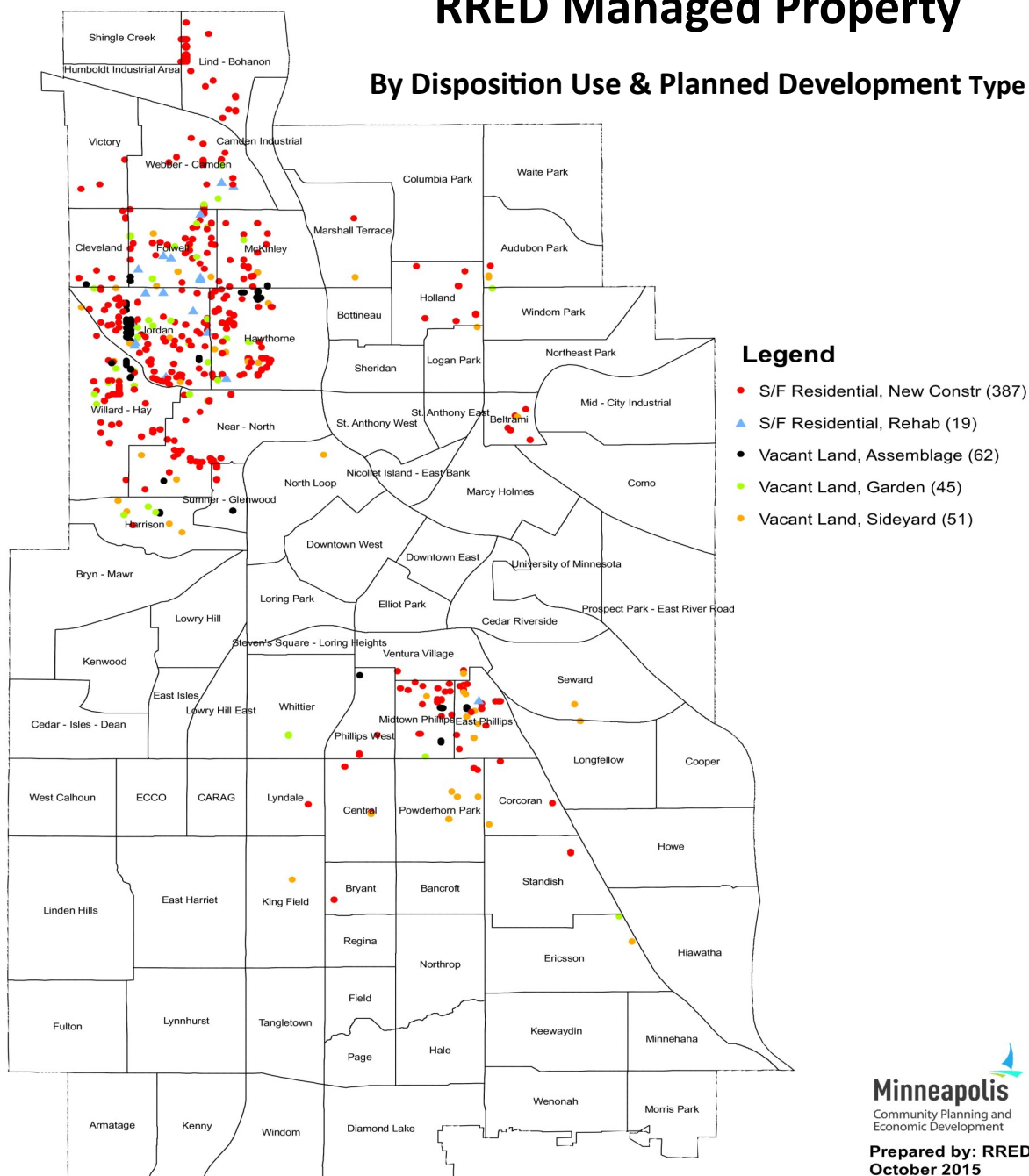
In South Minneapolis, RRED's investments and sales subsidized by RRED ranged from 2% to 6% of total properties and total sales in the target neighborhoods. Investments were less concentrated in South Minneapolis when compared to the size of each neighborhood. Thus, it is difficult to attribute the market improvements to RRED's investments given the small percentage of RRED financed project sales.



Vacant buildings continue to be an issue in the City of Minneapolis. As of September 2015, there were 528 registered vacant buildings of which 498 are residential. The City of Minneapolis owns 6% of the 498 residential vacant buildings; a majority of them have been approved for sale through RRED’s Vacant Housing Recycling Program. 74% of registered vacant buildings are privately owned; their rehabilitation and occupancy is dependent on the private owner’s interest to invest in their property or sell.

RRED Managed Property

By Disposition Use & Planned Development Type



- RRED manages 564 parcels of land heavily clustered in North Minneapolis.
- 387 vacant parcels or 69% of total properties are suitable for new single family housing development.
- 19 parcels have vacant structures that are prioritized for rehabilitation.
- 62 parcels are land-banked to be assembled for larger development projects.
- Total costs to dispose of RRED properties is estimated at \$31.6 million if RRED continues is historic trends of investment.

Vacant Property Disposition

Estimated Disposition Cost Budget					
Parcels	Value Gap Subsidies per Unit	Value Gap Subsidies	Affordability Subsidies per Unit	Affordability Subsidies	Total RRED Investments
387 New Construction	\$71,000	\$27.5 M	\$7,500	\$2.9 M	\$30.4 M
19 Rehab	57,000	1.1 M	7,500	1.0 M	1.2M
Total		28.6		3.0 M	31.6 M
62 Land Banked					TBD

The City owns over 400 vacant parcels that are suitable for new construction. Using historical costs, total estimated subsidies needed to address these parcels is estimated at \$30 million which far exceeds the resources RRED has available to invest over the next five years. Stronger neighborhoods may require less subsidy. Costs may also be offset by property sales. Estimates to address land banked properties are not included in this analysis.

Resource Availability

With the ending of NSP, Minneapolis will experience a significant decrease in funds available for housing investments. Only \$1.9 million is projected for RRED's low-density housing budget for 2016, a 63% reduction in funding compared to the average annual budget during the past seven years. With these limited resources, RRED must continue efforts to stabilize and revitalize neighborhoods, while also creating a disposition strategy for vacant properties owned by the City.

RRED Value Gap and Affordability Gap Financing Budgets		
Funding Type	2008-2014 Average Annual Budget	2016 Projected Annual Budget*
Federal HOME	\$976,585.76	\$395,000.00
Federal NSP	2,491,527.22	-
State MHFA	1,209,553.17	500,000.00
Foundation	40,000.00	-
City	335,714.29	991,900.00
Total	5,053,380.44	1,886,900.00
<i>*Pending approval, subject to change</i>		
<i>\$500,000 of city funds is also available as interim construction financing for HOME funded projects in the 2016 budget.</i>		
Represents a 63% reduction in funding available for affordability gap and value gap subsidies.		

An estimated \$31.6 million in investment is needed to build new homes or renovated structures on City-owned property as illustrated in the Estimated Disposition Cost Budget table above. New resources and significant leverage are needed to meet affordable housing demands, dispose of City-owned properties and address other blighting influences in target neighborhoods. Consideration should be given to alternative forms of financing such as bonds or real estate investment trusts, using City resources to leverage private capital and partner with the non-profit community to attract philanthropic capital. The City could build on existing partnerships with the Twin Cities Community Land Bank, local CDFIs, corporate entities and foundations to form a \$100 million pool of capital to finance housing activities.

Best Practice Research

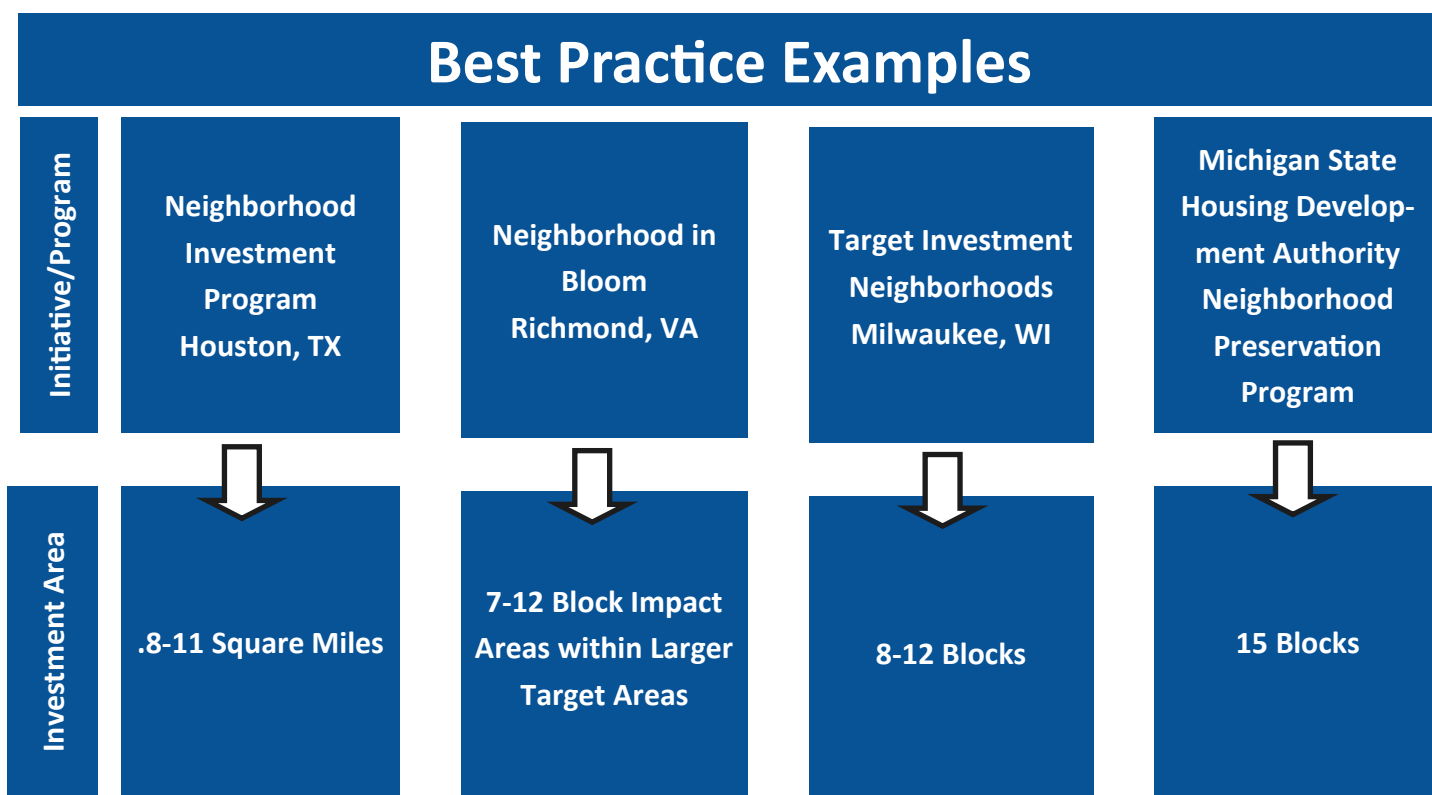
Best practice research shows that targeted investments achieve faster increases in housing values, reduce crime, improve family stability and provide greater opportunities for economic advancement than non-targeted strategies. In Minneapolis, the Northside Home Fund exemplifies this through its main initiative, the “Cluster Concept.”

The Northside Home Fund supported revitalization efforts focused on four city blocks in the Hawthorne neighborhood, the Hawthorne EcoVillage. The investment impact analysis in this report highlights the success of this strategy revealing that in Hawthorne, when compared to other neighborhoods, the price per square foot increased the most and property sale prices now exceed 2007 levels. More information on the Northside Home Fund and impact within the Hawthorne EcoVillage can be found in the Appendix.

In Richmond, Virginia, the city channeled 80% of the city’s federal housing funds (between \$6 million and \$7 million annually) plus other resources into 6-12 block areas within seven neighborhoods. An evaluation study revealed that highly focused public and non-profit investments resulted in significantly higher property values in these neighborhoods. Housing prices appreciated at a rate 9.9 percent faster than the citywide average. Furthermore, prices for properties within 5,000 feet of the targeted areas increased 5.3 percent faster than the citywide average. This suggests that the effects of investments reach beyond the target area.

When making a final decision on target areas, several factors should be considered:

- The selected area should be concentrated and manageable at 15 blocks or less
- Natural boundaries should be considered
- Active neighborhood organizations, businesses and residents that can be engaged





Recommended Strategies for Consideration

Direct a significant portion of available resources to clearly defined target areas. Selected target areas should take advantage of and dispose of vacant properties or land owned by RRED.

- The City's vacant land can act as a catalyst for neighborhood development helping to dispose of city owned inventory and build sustainable strategies to protect this investment. Land purchased by NSP has a 10-year window for disposition after grant closeout making it imperative to address these parcels.

Leverage the City's CDBG funds with MHFA's Fix-Up program to expand the pool of funds available.

- The Minnesota Housing Finance Authority's Fix-Up program offers low-cost home repair financing to eligible homeowners. The

City is currently using CDBG funds as direct home repair loans. As an alternative, the City could use CDBG funds to write down the interest rate of an MHFA loan making it affordable to low-income families. This could leverage CDBG funds up to a 4:1 basis and significantly reduce loan origination and servicing costs.

Utilize HUD's Neighborhood Revitalization Strategy Area (NRSA) tool to which allows more flexible use of HUD funds.

NRSAs offer a number of benefits and allow for a more balanced approach to neighborhood development including assistance to families of all income levels, offering special economic development incentives and allowing more investments in public service activities. HUD rules that govern NRSA will guide the City in the selection of target areas.

Adopt a more comprehensive approach to neighborhood revitalization. Proactively partner with other community builders and city agencies to improve targeted neighborhoods.

Physical development is just one facet, albeit an important one, in building communities. Factors such as safety, economic development, family stability and education are examples of other quality of life elements that comprise healthy neighborhoods. Comprehensive strategies are the backbone of NRSAs.

Continue to serve a range of income levels and diverse households to provide more choices and promote de-concentration of poverty.

RRED's investments were focused in areas of concentrated poverty partly due to requirements of leveraged state and federal funding programs. The City could diversify the housing options to serve families with a range of income levels in areas of concentrated poverty. Serving a wider range of income levels will also attract equity investments such as 4% low-income housing tax credits, decrease the amount of subsidy required per unit and bring more balance to racial and social inequalities in housing development.

Allocate a portion of affordability gap financing dollars for City-owned properties in stronger market areas, where development subsidies are not required, to provide low-to-moderate income families the option to live in high opportunity neighborhoods

The affordability gap funding should be extended in stronger market neighborhoods to further efforts to de-concentrate poverty.



Neighborhood Stabilization Program: Photo Credit Urban Home Works (left), City of Lakes Community Land Trust (middle), Greater Metropolitan Housing Corporation (right)

Financing Recommendations

The City of Minneapolis should consider creating a task force represented by the City, MHFA, HUD, Foundations and LISC to develop a \$100 million pool of resources to invest in Minneapolis neighborhoods. This broad goal provides the City and its partners with resources to address vacant property and deploy comprehensive community development investments in targeted neighborhoods. The pool would be used to provide low-cost, flexible funding to finance affordable housing on city-owned lots and other comprehensive development activities, especially if an NRSA approach is pursued. The following are ideas for consideration.

Low Income Housing Tax Credits

The City of Minneapolis uses low-income housing tax credits primarily for multi-family, rental development. The tax credits provide the subsidy levels required to close the gap between the approved value and construction costs and help to maintain rents at affordable levels. There are two levels of tax credit, 9% and 4%, formally known as the applicable percentages. Projects can combine 9% and 4% tax credits and be designed as mixed income development. Nine and four percent tax credits typically yield equity valued at 70% or 30% of total eligible development costs respectively. For Minneapolis, a single family tax credit deal could generate equity or development subsidy ranging from \$600,000 to \$1.7 million for a 100 unit project.

Several mid-west cities in Ohio, Michigan, Indiana and Illinois among others have also used tax credits for single family housing development. The Cleveland Housing Network (CHN) has produced more than 2,300 single family homes using 9% tax credits in a lease-to-purchase model. Over the long-term, this program provides homeownership opportunities and builds wealth for low income families as private financing is more accessible. The program also stabilizes neighborhoods plagued by large volumes of vacant property. In stronger markets such as Minneapolis, 4% tax credits may be a viable option for financing single family development. At the end of the tax credit period, homes can be sold to homeowners, remain as rental or a combination of both.

CHN also uses the program strategically to encourage future development in Cleveland's neighborhoods and as a neighborhood stabilization tool to transform large numbers of vacant homes and/or lots into community assets.

Rental Assistance Demonstration Program

The Rental Assistance Demonstration (RAD) program, developed by the U.S. Department of Housing and Urban Development (HUD), is designed to help finance capital improvements or new construction of public housing units across the country. RAD promotes the conversion of Section 8 Moderate Rehabilitation programs to long-term, project-based Section 8 rental assistance contracts. This allows public housing agencies and private owners to obtain private debt and equity to address capital needs while also ensuring that existing tenants remain in their homes. PHAs are often seeking single family homes to house larger families. Utilization of RAD vouchers would assure long-term affordability of a single family rental property and may be interested in the purchase of lots to build new rental housing.



Real Estate Investment Trust

Affordable housing Real Estate Investment Trusts (REIT) have been investing in affordable housing for over a decade. A REIT combines the capital of many investors to acquire or provide financing for real estate. REITs, such as the Community Development Trust, primarily have been investing in multi-family buildings but there is growing awareness of the need to identify alternative sources of financing for single family rental development. A REIT may offer some advantages, especially in cities with strong local economies such as Minneapolis. Partnerships between non-profit, mission-minded developers with a national REIT may provide capital that reduces the City's subsidy requirements.

Section 108 Loans

Section 108 is a HUD loan guarantee program that finances economic development, housing rehabilitation, public facilities, and other physical development projects. Grantees, such as the City of Minneapolis, can borrow up to five times their annual CDBG allocation for Section 108 loans. According to HUD, the program's flexibility makes it one of the most potent and important public investment tools available to local governments. The program allows local governments to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects capable of renewing entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. While local governments borrowing funds guaranteed by HUD through the Section 108 program must pledge their current and future CDBG allocations as security for the loan, the goal is for the proposed project to have sufficient cash flow to repay the loan without any need for current or future CDBG dollars used for the repayment. The current HUD strategic plan targets the Section 108 loan program to expand the supply of affordable rental homes where most needed and to catalyze economic development and job creation.

Source: HUD Resource Exchange Website

Program Related Investments

Program-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes. A large portion of PRI dollars support affordable housing and community development. The primary benefit of PRIs is access to capital at lower rates than may otherwise be available. For the funder, the principal benefit is that the repayment or return of equity can be recycled for another charitable purpose.



Bank Settlement Funds

Most of the large banks and financial institutions have reached historic settlements to resolve federal and state lawsuits associated with mortgage-backed securities that contributed to the financial crisis. The City of Minneapolis should explore how settlement funds are being used in Minnesota and develop a plan to tap into this source. Other cities have used these funds for demolition, rehabilitation of vacant properties and new construction on vacant lots resulting from demolition. Donations associated with these activities are often provided to land banks, non-profit organizations, local Community Development Financing Institutions (CDFIs) or community development funds administered by local governments. Requests for funding that are part of a comprehensive local strategy to stabilize neighborhoods are more favored. Bank funds can be creatively structured, such as loan loss reserves, loan guarantees, lower interest loans or higher loan-to-value ratios to address the challenges associated with financing single family housing development in neighborhoods impacted by foreclosures.

Lease to purchase model

Lease purchase models have been around for decades with varying levels of success. In Minneapolis, lease purchase models are typically structured with a 1-3 year lease period. Homebuyers receive financial support and counseling that allow them to purchase the home at the end of the period. The Cleveland Housing Network deploys a successful model as discussed in the LIHTC section of the report. Home Partners and the National Community Stabilization Trust also offer new lease purchase models that may be worthy of replication in Minneapolis. Lease purchase projects have proven to be successful with strong property management, realistic financial forecasts that reflect the costs of managing scattered sites and a strong focus on preparing families for homeownership through financial counseling and homeownership training. A portion of homes developed with RRED financing were lease purchase projects. The demographic analysis found that programs with this type of wrap around financial support resulted in a higher rate of service to people of color. Continuing or adjusting existing models in CPED based on similar financing tools could be beneficial.

Mezzanine Financing

Mezzanine financing is a debt instrument that is gaining popularity. As lending has become more restricted, financing affordable housing has become more challenging. Mezzanine financing can fill the gap between traditional loan-to-value maximums provided by private banks and total cost securitized by a second mortgage on the real estate. City funding could be used as a guarantee or match to establish a pool of higher risk mezzanine loan funds that will entice developers to produce more housing using future cash flows to repay the debt.

Appendix

<u>Topic</u>	<u>Page</u>
• Northside Home Fund	33
• Data Analysis NSP Strategic Investment Target Neighborhoods	34
• Community Feedback	41
• Survey Results	43
• Definitions	48
• Demographic Analysis	50

Northside Home Fund

The mission of the Northside Home Fund is to add value to existing neighborhood, city, and other private and public efforts to support safe, vibrant, and sustainable communities in North Minneapolis. Its goal is to *reestablish in North Minneapolis attractive, safe neighborhoods, and a healthy housing market that is sustainable in the private marketplace.*

The Northside Home Fund's main initiative, the "cluster concept", is built upon the strong collaborative networks that exist within the affordable housing system in Minneapolis. Make big changes in a concentrated small area—That's the logic behind the focus on small geographic areas, or "clusters". By making a noticeably positive impact on the housing stock in a concentrated area, partners stabilize and strengthen the homeownership market of North Minneapolis neighborhoods.

Specific components of the cluster projects include the redevelopment of vacant and boarded homes, the building of new homes on vacant lots, community outreach and organizing, concerted efforts with housing inspections and police partners, and the establishment of a development partnership to identify and implement residential development opportunities within the cluster.

This multi-faceted approach aims to bring about improvements that are so perceptible that positive change radiates to adjacent blocks. Also, trends and issues that are identified and addressed often provide work, policy, and process changes that bring a positive impact to the Northside neighborhoods as a whole.

The Northside Home Fund supported revitalization efforts in the Hawthorne EcoVillage area. The area consists of four city blocks in the Hawthorne Neighborhood of Minneapolis, and involves a comprehensive range of activities to achieve its ambitious goals to build a sustainable neighborhood that focuses on restoring balance to natural systems, supporting health amongst residents, and cultivating neighborliness and a strong sense of community.

The Hawthorne EcoVillage is a four block area bounded by Lowry Avenue on the north, 30th Avenue on the south, Lyndale Avenue on the west, and 4th Street on the east. As one of the longest running cluster projects, positive work has spilled over from this initial boundary to blocks across the street as well.

- There are 15 new construction homes built in the Hawthorne EcoVillage. All harmonize with the architectural era of the neighborhood and include green features.
- The Hawthorne EcoVillage includes a community garden, and a demonstration garden area that can be replicated using best practices in community-based development, neighborhood revitalization, and sustainable green building and landscaping.

The Northside Home Fund work in the Hawthorne EcoVillage continues with outreach to bring the community together as a true and vital neighborhood. The Northside Home Fund supports the renters, as well as our homeowners, in the area. The Hawthorne EcoVillage Apartments will be built next, which will have 75 affordable units and include rain gardens, walkways, and pathways. The Hawthorne EcoVillage has been designed to be an innovative, sustainable neighborhood that focuses on restoring balance to natural systems, supporting health amongst residents, and cultivating neighborliness and a strong sense of community.



Source: http://www.fhfund.org/wp-content/uploads/2014/10/EcoVillage_Report.pdf

Data Analysis NSP Strategic Investment Target Neighborhoods

Methodology

Corporate FACTS was asked to provide an assessment of the impact of NSP investments in eleven targeted neighborhoods, representing both North and South Minneapolis. For comparison purposes, two “control” neighborhoods were also selected that were believed to be similar in characteristics to the target neighborhoods, but in which little or no NSP investment occurred.

The dataset used for analysis came from the Minneapolis Association of Realtors “Infosparks Market” online data base. For this report, 12 month (January 1-December 31) averages were used to compare data from 2007 to June 2015 for brokered single family home sales on the following data points:

- **Average % change in sales price – year over year.** Percentage was used to track the amount of change in value as the selected neighborhoods represented a wide range of initial values from a high of \$197,998 to a low of \$63,666. The average value for each neighborhood and each year can be found in the chart.
- **Average % change in sale price per square foot – year over year.** Percentage was used to track the amount of change in value as the selected neighborhoods represented a wide range of initial values. Use of price per square foot also controls for size of home, which varies both within and between neighborhoods.
- **Percent of lender controlled sales.** This percentage is derived from dividing the total number of sales in a year by the number of those sales that were lender-controlled (foreclosures) as defined by the data source (MAR – “Infosparks Market”).

2015 data represents only a six month period. This should be taken into consideration when evaluating the findings, as 12 month data may yield somewhat different trends. It should be further noted that this report does not take into account any private (non- brokered) sales. Typically only brokered sales are used for appraisal and analysis purposes.

For average sale price and average price per square foot the analysis examined the percent of change (positive or negative) in the values for each neighborhood over a 12 month period. That change in percentage is reflected in the graphs. For the percent of “distressed sales” the actual percent of total sales that were represented by lender controlled transactions (foreclosures and short sales) are what is represented in the graphs.

Overall Market Observations

The target neighborhoods in both North and South Minneapolis experienced a devastating value decline between 2007 and 2008. In many neighborhoods this translated into a 50% (or more) loss in property values.

Between 2008 and 2010, buyers (likely significant numbers of investors) took advantage of these “bargain basement” prices. This assumption was confirmed by analyzing the Assessor’s data base of homestead properties. This data shows a decline in owner-occupied properties for every neighborhood. As of the 2015 data, the decline continues.

Very high percentages of these sales are characterized as “lender controlled” (foreclosures or short sales). In many neighborhoods, during this time period these “distressed sales,” represented over 60% of the total sales volume in that year. The Infosparks data set shows that citywide, the percent of sales characterized as “lender controlled” was at 10% for the first six months of 2015. This suggests that the lenders may have held inventory waiting for a market recovery; and are now releasing the back inventory back into the market.

Between 2009 and 2011 values began to increase, before declining again sharply between 2010 and 2011 in all neighborhoods assessed.

2011 to 2012 time period marked a time of gradual, but quite consistent improvement in values which continues to date. The target neighborhoods have generally experienced reduction in both percentage of distressed sales and increases in both average sale price and price per square foot (controlling for size). In many of the target neighborhoods both absolute average value and percentage increase in value outpaced that of the control neighborhoods, and several now exceed pre-2008 levels.

The following sections address more specific findings for the variables examined (average sale price, average price per square foot, and distressed sales as percentage of total sales volume) for six targeted NSP investment neighborhoods and one control neighborhood in North Minneapolis; and three NSP investment neighborhoods and one control neighborhood in South Minneapolis

There are still a significant number of “distressed sales” occurring in these neighborhoods. This is reflective of a national trend with lenders holding on to the better properties remaining in their portfolios hoping to recoup a larger percentage of their initial investments on resale as sale prices begin to increase.

Neighborhoods Evaluated

North Minneapolis

- Folwell
- Jordan
- Hawthorne
- Willard-Hay
- Near North
- Harrison
- McKinley (control)

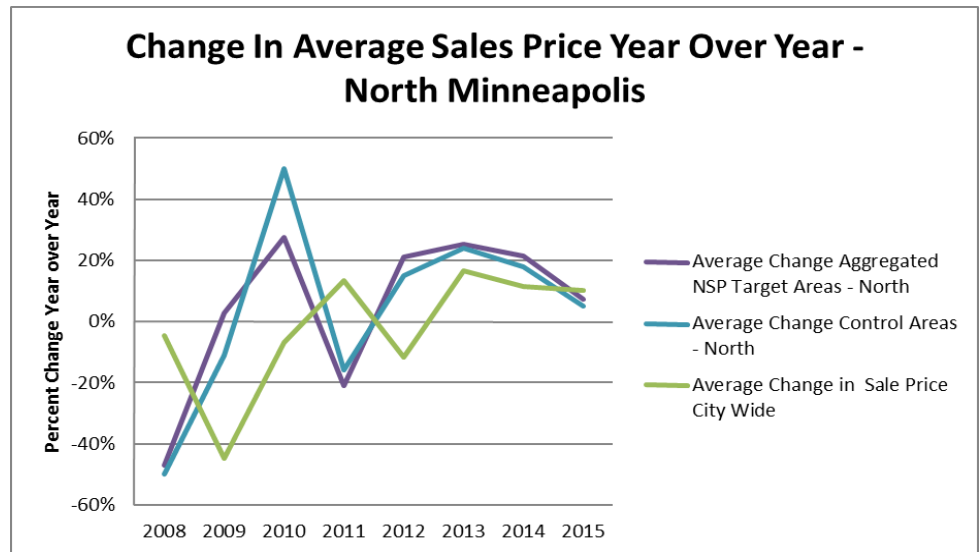
South Minneapolis

- Central
- Powderhorn Park
- Bryant
- Bancroft (control)

Comparison of NSP Investment Neighborhoods (aggregated) with Control Neighborhoods

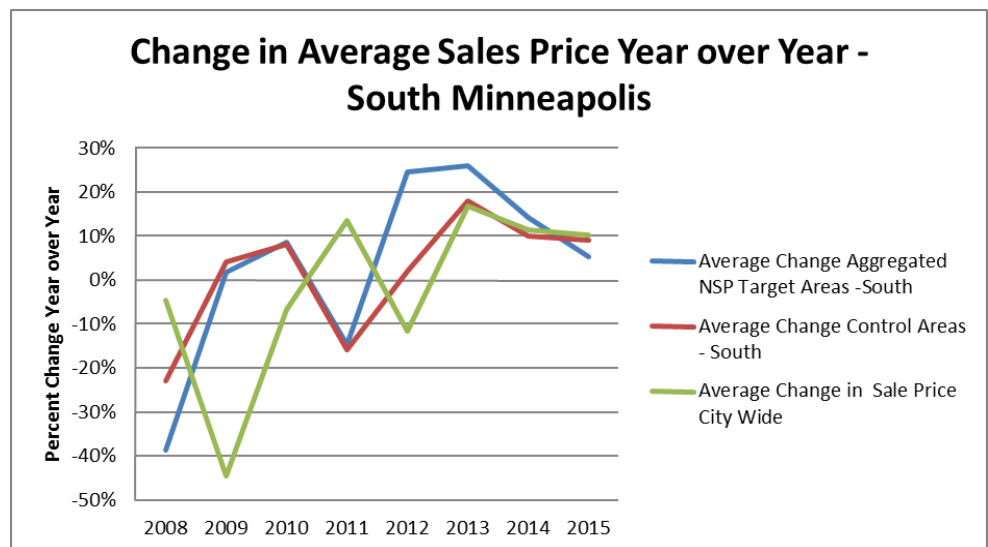
Sale Prices— North Minneapolis

- Beginning in 2011, the percentage increase in sales prices, NSP target areas outperformed the control neighborhood.
- While both neighborhoods are continuing to appreciate, the NSP neighborhoods are still appreciating at a slightly higher rate year over year.
- Hawthorne, Willard-Hay, and Near North 2015 sales prices have rebounded to **exceed** 2007 levels. The control (McKinley) has almost rebounded to 2007 levels. All of the remaining neighborhoods are showing a steady improvement in average sale price, but have yet to reach 2007 levels.
- Citywide prices continue to increase at a rate of about 10% from 2014 to 2015. This in the most recent 6 month period, this rate of increase is greater than exceeded that of both the control and NSP target neighborhoods.



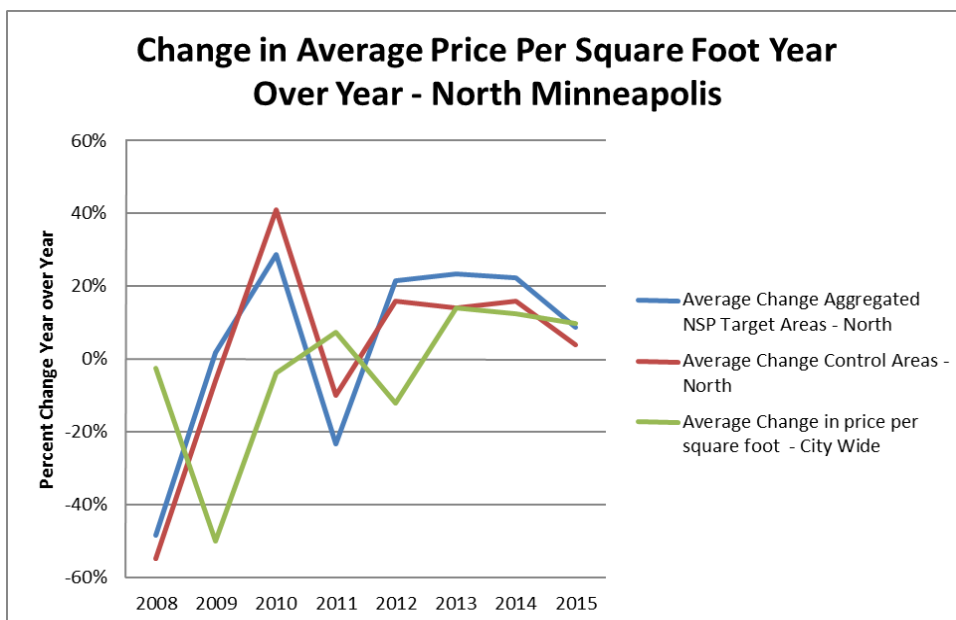
Sales Prices—South Minneapolis

- The NSP neighborhoods experienced a much sharper decline in sales prices in the early days of the recession. In some NSP neighborhoods, prices dropped 50% or more.
- Average change in sales prices year over year took the largest jump in South Minneapolis, becoming positive between 2011 and 2012 for the NSP neighborhoods (sooner than the control).
- Since 2011, the NSP neighborhoods have exceeded the rate of appreciation year over year of the control neighborhood.
- Although it appears that in 2015 both neighborhoods are slowing in the rate of appreciation, both are still appreciating and only six months of data was available for analysis.
- The citywide trend of appreciating sales values remained stable at about 10% per year over the past two years, while the target neighborhoods are appreciating at a slightly lower rate.



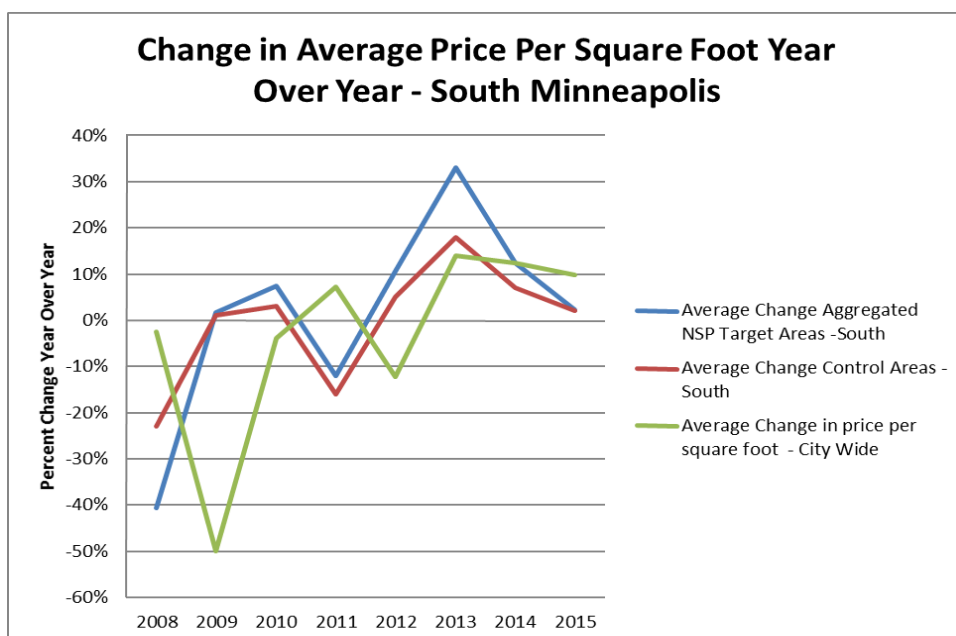
Price per Square Foot—North Minneapolis

- The North Minneapolis neighborhoods experienced a devastating decline in price per square foot between 2007 and 2008.
- Between 2011 and 2012 the NSP target neighborhoods began to experience year over increases in price per square foot that exceeded that of the control neighborhoods. This trend appears to be continuing in 2015 based on the first six months of sales.
- Since 2012, the NSP neighborhoods have consistently outperformed the control neighborhood in the appreciation in value as reflected in price per square foot.
- Within the past 12-18 months, Citywide appreciation remains fairly steady at about 10% per year, now equal to that of the NSP neighborhoods in 2015, but greater than the control neighborhood.



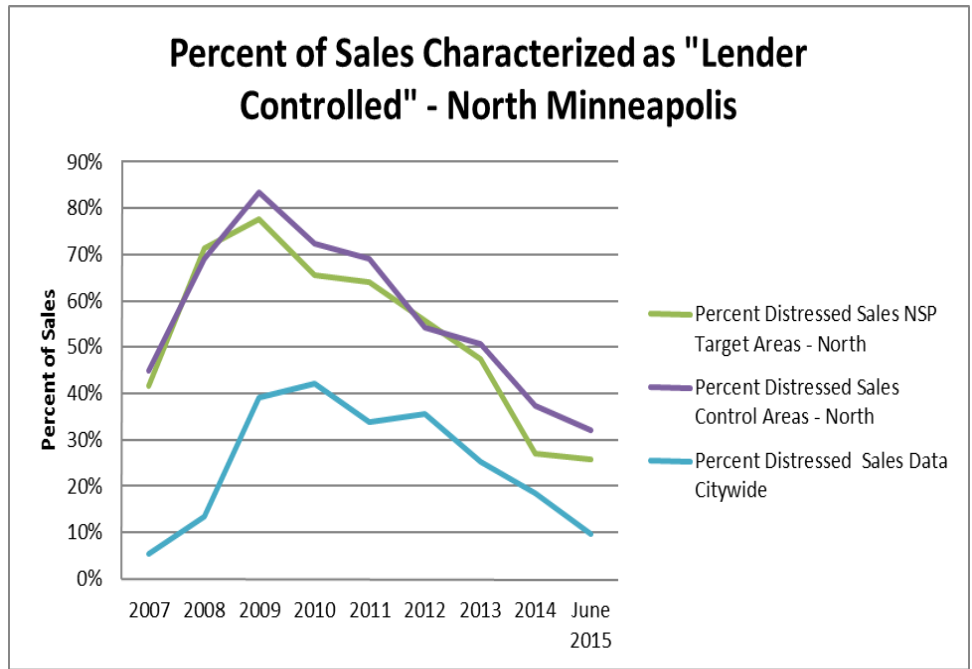
Price per Square Foot—South Minneapolis

- Similar to North Minneapolis neighborhoods, those neighborhoods evaluated in South Minneapolis experienced a large decline in value as measured by price per square foot between 2007 and 2008. The decline was more pronounced in the NSP target neighborhoods.
- Beginning in the 2011-2012 time period, appreciation in price per square foot accelerated at a faster rate where NSP investment occurred than the control neighborhood. This trend continued until 2015 where it appears that appreciation rates are leveling off (although still positive) for both NSP target and control neighborhoods.
- When controlling for home size, citywide appreciation remains fairly steady at about 10% per year while the rate of appreciation in both control and target neighborhoods has slowed in comparison.



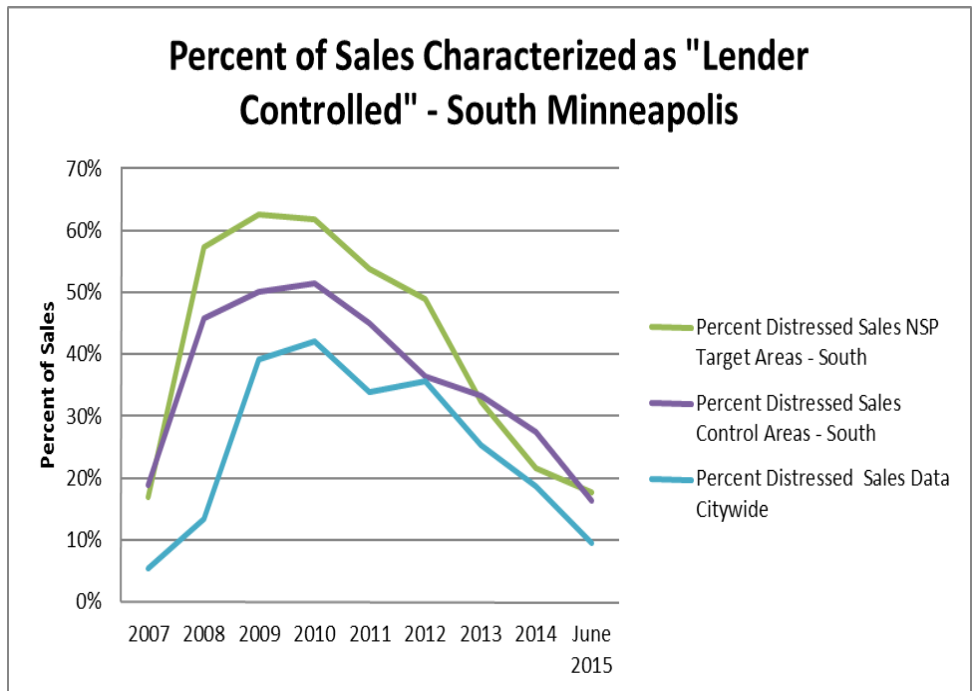
Distressed Sales (lender controlled foreclosures and short sales) - North Minneapolis

- With the exception of 2008 and 2012, the rates of lender controlled sales in the control neighborhood exceeded that of the NSP target neighborhoods.
- The disparity in the rates of distressed sales is widening as time progresses, with fewer distressed sales in the target neighborhoods.
- Of note is that the increase in lender controlled sales began to escalate at approximately the same time that the market recovery started citywide in 2012.



Distressed Sales (lender controlled foreclosures and short sales) - South Minneapolis

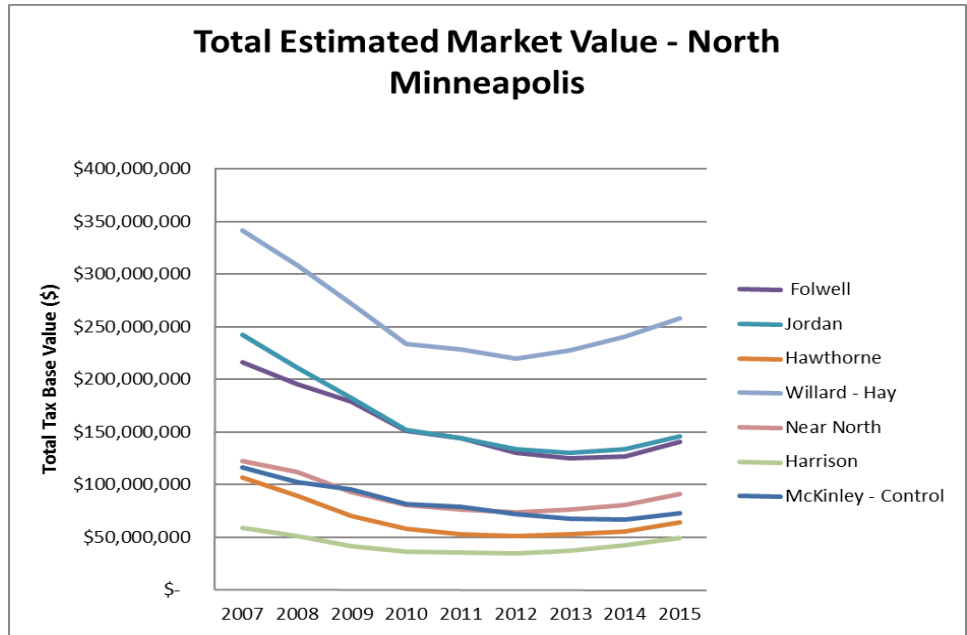
- Unlike the North Minneapolis NSP neighborhoods, the South Minneapolis NSP neighborhoods experienced a higher percentage of distressed sales until 2013. Most of the NSP neighborhoods experienced a sharp decline in the percent of sales that were lender controlled in 2014.
- The leveling off of distressed sales may be a reflection of a depletion in the inventory of foreclosures and short sales in NSP neighborhoods, as it appears that a significant amount of the inventory was sold in the 2008-2011 time frame, and the foreclosure rate has slowed in recent years.



- Lender controlled sales have remained a higher percent of sales in the control neighborhoods.
- Of note is that the increase in lender controlled sales began to escalate at approximately the same time that the market recovery started citywide in 2012.

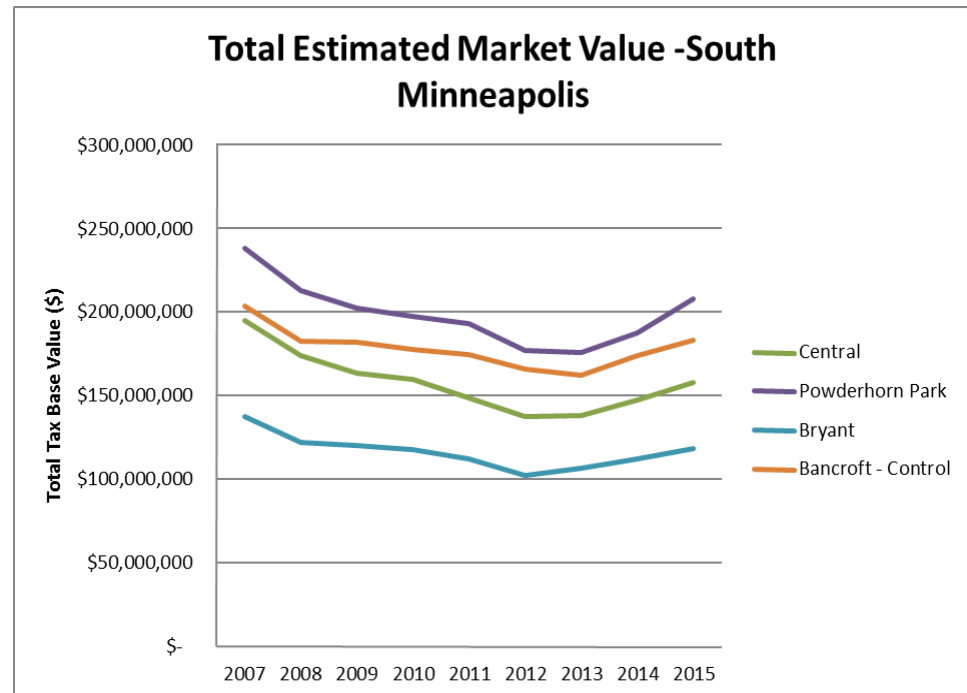
Total Estimated Market Value—North Minneapolis

- North Minneapolis neighborhoods tended to have lower sale prices and lower rates of homeownership.
- The Folwell neighborhood (North Minneapolis) had the largest drop in percent of owner occupied properties between 2007 and 2015.
- The Assessor's data shows that all neighborhoods lost value and thus tax base during the period 2007 to 2015. Although there has been some recovery in all, it appears to be stronger in the neighborhoods that had smaller tax bases in 2007. None of the neighborhoods has returned to 2007 values.



Total Estimated Market Value—South Minneapolis

- Based on assessor's data of taxable value (total market value) South Minneapolis neighborhoods seem to be recovering at a faster rate than North Minneapolis neighborhoods. They also tend to have higher average sale prices, and high rates of owner-occupied properties (as represented by homestead status).
- The Assessor's data shows that all of these neighborhoods lost value and thus tax base during the period 2007 to 2015. Although there has been some recovery in all, none of the neighborhoods has returned to 2007 values.



- Not surprisingly, the neighborhoods with lower rates of homeownership also tended to have lower average sale prices. A review of market rents may show that investors are now reaping significant returns on their investments for these properties.

RREDS Investments Compared to Total Sales and Total Properties by Neighborhood

	Total RRED Sales	% of Total Sales	Total RRED Properties	RRED Units as a % of Total Properties	Change in % of Homesteaded Properties
North Minneapolis					
Folwell	47	4%	98	6.33%	-16%
Jordan	57	5%	122	7.26%	-9%
Hawthorne	40	8%	88	12.72%	-8%
Willard - Hay	67	5%	100	4.70%	-4%
Near North	25	6%	61	8.46%	-6%
Harrison	17	9%	44	11.52%	-6%
McKinley - Control	12	2%	49	5.52%	-11%
South Minneapolis					
Central	28	5%	59	5.71%	-4%
Powderhorn Park	21	4%	30	2.41%	-5%
Bryant	12	3%	17	2.41%	-6%
Bancroft - Control	0	0%	4	0.39%	-7%
Citywide	347	1%	672	0	-7%

- This chart illustrates total RRED sales as a % of total sales and total RRED properties as a % of total properties for each analyzed neighborhood.
- When compared to total sales and total properties, Hawthorne, Harrison, and Near North had the highest concentration of RRED properties. In Hawthorne, PPSF has increased the most since 2007 from \$42 to \$69, a 64% increase. Hawthorne was also a neighborhood targeted for demolitions. This further laying of investments may have also contributed to its significant recovery.
- Given the small % of total sales that are attributed to RRED investments, it is difficult to correlate market improvements with NSP investments in the other neighborhoods.
- Neighborhoods lagging in recovery with the biggest negative % change in PPSF (Falwell & Powderhorn Park), had the lowest concentration of RRED investment properties compared to total sales and total properties.

Community, Partner & Investor Feedback

In November 2015 REDD facilitated informational sessions to present the findings of the investment analysis report and review the recommended strategies for the City of Minneapolis' future investments. Feedback on the findings of the report and recommended strategies were presented to community partners, investors, City of Minneapolis residents, City Council members, and neighborhood organizations including the following activities.

- 67 residents and developers attended community meetings
- Engaged City of Minneapolis council members in areas most effected by the study, wards 4, 5, 8, and 9 as well as funders from Minnesota Housing and the local HUD field office
- Engaged City of Minneapolis staff from the regulatory services, vacant building registration, long range planning, residential and real estate development, residential finance, and business development work units within CPED, as well as the Neighborhood and Community Relations department.



How will the community benefit from a Targeted investment strategy?

- Bring more resources together (social, economic, physical, and financial)
- Investments are more visible
- Ability to help more residents in one area
- Reduction in crime
- Increase in property values and quality housing
- Opportunity to engage with community residents
- Ripple effect impacts
- Motivation for residents to invest in their properties

What would you change about the Targeted investment strategy?

- Leverage existing strategies
- Targeted strategy should be comprehensive
- Consider social and economic conditions in the targeted area
- Ensure there is a long term sustainability strategy

How can the community benefit from a Rental strategy?

- Residents with higher incomes should have access to units built
- Increases economic development
- Return housing stock to its original intended use

What would you change about the Rental strategy?

- Consider development opportunities for “for-profit” developers
- Ensure there is a crime and safety strategy
- Consider small investors for rental development

How can the community benefit from a NRSA strategy?

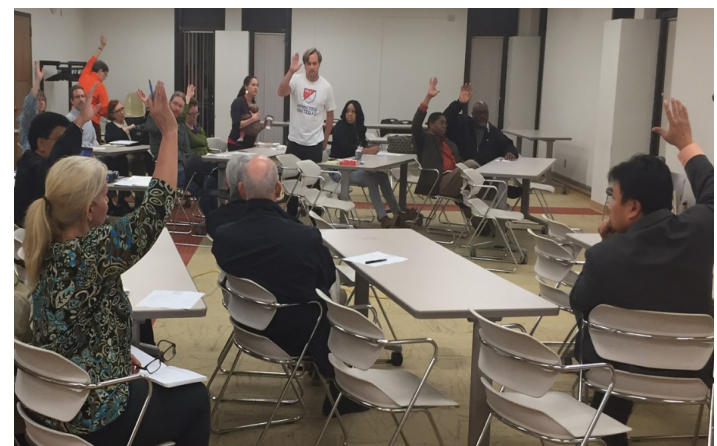
- Increase safety
- Possible ripple effect
- Strengthens relationship with community residents
- Mixed income residents can benefit
- Increases strength of local businesses
- Offers more diverse housing choices for residents

What would you change about the NRSA strategy?

- Use tool in a concentrated area
- Model best practices
- Attach to commercial corridor
- Require financial counseling for loan recipients
- Focus funds on families that are current residents
- Have a strong marketing plan
- Encourage interdependency in 12 block area
- Build affordable housing in affluent neighborhoods
- Increase AMI limits on projects
- Raise income limits on qualification criteria

How should we engage residents?

- Social media
- Block clubs
- Community leaders
- Leverage local non-profits
- Door-to-door communications
- Communicate/Educate benefits of investment strategies
- Establish neighborhood councils



Survey Results

In response to feedback received at community meetings, RRED created a survey to broaden participation in review of the report. There were a total of 146 survey respondents. Nearly 95% of the respondents were residents of Minneapolis. The survey indicated that a targeted comprehensive revitalization strategy would be important to a physical development for homeowners and renters in Minneapolis. Respondents feel that concentrating physical development efforts in a selected area that is 15 blocks or less would result in the most visible change.

Respondents indicated that focusing in areas that are close to transit, have vacant buildings, poor housing conditions, high rates of crime and high rates of rental with the outcome of increased homeownership would be ideal target areas. The survey results showed that utilizing HUD's NRSA tool would allow for more flexibility in funds. Respondents specified that providing options for low-to-moderate income families through use of affordability gap funding would result in a stronger housing market.

Based on best practices, engaging the community will be an important part of the process to initiating a comprehensive physical development strategy. The respondents of the survey feel that continued use of survey and community meetings are the best methods to engage community residents. The survey results also show that utilization of social media and community block clubs are other ways to engage community residents. Door knocking was rated as the least effective for engaging community residents.

Will the community benefit from a Targeted investment strategy?

Answer Choices	Responses	Total Respondents
Yes	69.23%	99
No	11.89%	17
Not Sure	18.88%	27

The survey results show that the majority of respondents (70%) feel that the City of Minneapolis will benefit from a targeted investment strategy.

Should the 12-15 block target area be...

Answer Choices	Responses	Total Respondents
Less than 15 blocks	19.71%	27
More than 12-15 blocks	22.63%	31
12-15 blocks is the right size	57.66%	79
Total		137

Respondents feel that a targeted area considered for investment should be 15 blocks or less (78%).

Rank the following potential impacts of a Targeted Area strategy.

Respondents feel that the biggest potential impact of a targeted investment strategy is that investments will be more visible. Respondents also feel that a targeted area would see a “ripple effect” 1-2 miles outside of the targeted area. Homeownership and becoming attractive to investors were also highly ranked potential impacts.

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Response Count
Investments are more visible	48	59	24	5	1	136
The community will see a "ripple effect", meaning impacts will spread 1-2 miles outside of the targeted area	24	66	33	20	4	141
Targeted area becomes a "desired place to live" by Minneapolis residents	31	69	27	13	4	141
Investors will be attracted to targeted area	26	73	25	16	3	141
Increase in homeownership	28	68	32	10	3	140
There are no benefits that are specific to investing in a "targeted area"	4	6	34	65	29	136
Investing in a targeted area could cause non-targeted areas to not be included in revitalization	22	46	39	29	3	139
Less flexibility for other projects	19	37	54	23	4	136

Will the community benefit from utilizing the NRSA tool?

Answer Options	Response Percent	Response Count
Yes	64.4%	76
No	12.7%	15
Not Sure	22.9%	27

The majority of respondents (64%) indicated that they do believe that communities in Minneapolis can benefit from the HUS NRSA tool.

Rank the following potential impacts of a NRSA strategy?

Survey takers feel that a NRSA will have potential impact on quality housing choices, increase in mixed income and value of housing. Respondents strongly feel that existing residents of a selected targeted neighborhood should have priority on housing choices. The survey also showed that respondents feel all income levels should be considered for home loans.

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Response Count
Increase in choices for quality housing	23	60	20	10	1	114
Increase in property values	21	61	25	8	0	113
Increase in mixed income housing	19	53	28	13	1	114
Small businesses grow	19	63	24	5	2	112
Communities become more economically and racially diverse	18	43	41	10	4	114
Use of the NRSA tool will not be a good strategy to pursue	11	10	36	38	18	113
Reduces administrative reporting requirements which makes it easier for businesses to hire local residents	11	31	57	11	4	112
Existing residents should be prioritized to receive NRSA benefits	21	43	37	5	8	114
All homeowners in a neighborhood can access home improvement loans	24	52	20	14	6	113
Federal subsidy helps higher income households	9	17	52	25	11	112

Q7: Will the community benefit from a comprehensive strategy for rental development?

Answer Options	Response Percent	Response Count
Yes	66.7%	74
No	9.9%	11
Not Sure	23.4%	26

The majority of respondents (67%) feel that neighborhoods in Minneapolis can benefit from a comprehensive rental development strategy.

Can low-to-moderate income families benefit from living in higher opportunity neighborhoods?

Answer Options	Response Percent	Response Count
Yes	80.4%	86
No	3.7%	4
Not Sure	15.9%	17

Survey takers (80%) feel that low-to-moderate income families can benefit from living in higher opportunity neighborhoods.

Rank the following potential impacts of a Comprehensive Rental strategy.

Respondents feel that a comprehensive rental strategy will provide Minneapolis residents with more choices in rental housing and increase racial/economic diversity. Survey takers also indicated that high public investments could result in stronger renter markets.

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Response Count
More choices in rental housing	35	62	11	2	1	111
Opportunity for increased racial and economic diversity in all Minneapolis neighborhoods	35	49	19	8	1	112
Increased quality of life	27	43	29	12	2	112
Investing in rental property development is not a good idea	7	4	21	47	31	110
Homeowners do not want to live near rental properties	15	26	22	39	9	110
Increase in crime and safety issues	10	14	31	40	17	111
Higher public investment for affordable rental in strong markets	21	51	31	6	2	110

Rank the advantages/disadvantages of the Affordability Gap strategy.

Respondents feel that an affordability gap strategy will help children have access to a higher quality of life, provide a more stable environment and improve the overall quality of life for low-to-moderate income residents.

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Response Count
Children have access to a higher quality of life	38	47	16	8	0	108
Low-income families live in a more stable environment	40	42	17	8	1	108
Economic and racial diversity in all Minneapolis neighborhoods	37	44	19	7	0	107
Improved quality of life for low-income families	36	41	26	4	1	108
Provides opportunity for families to build wealth	28	36	24	18	3	108
Less funding to improve struggling neighborhoods	13	29	39	18	8	106

Rank the most effective method for community engagement. (1 = Most Effective and 3 = Least Effective)

Community meetings, surveys and social media were identified as the most effective way to reach residents. Door knocking was considered a less effective strategy.

Answer Options	Most Effective	Effective	Least Effective	Somewhat Effective	Rating Average	Response Count
Community meetings	28	40	4	34	2.13	106
Surveys	14	45	10	38	2.41	107
Social media	24	43	8	31	2.22	106
Block Clubs	19	35	13	39	2.43	106
Door knocking	17	32	26	31	2.62	106

Select the top 5 criteria for City target areas.

More than 65% of respondents felt the following five criteria should be considered when selecting a target area: poor housing conditions, high vacancy, close to transit, crime hot spots and high rates of rental.

Answer Options	Response Percent	Response Count
Vacant buildings	73.6%	78
Vacant lots	39.6%	42
Crime hot spots	66.0%	70
Close to other public investments	17.9%	19
Areas with high rates of rental with an expected increased homeownership	42.5%	45
Poor housing conditions	74.5%	79
Close to Parks	24.5%	26
Close to schools	35.8%	38
Close to transit	70.8%	75
Close to commercial corridors	33.0%	35

In the neighborhood you live in, which of the following services are needed:

Answer Options	High Need	Low Need	Some Need	Response Count
Homeowner housing rehabilitation	32	29	40	101
Financial counseling	27	34	39	100
Rehabilitation of vacant buildings	25	47	29	101
Rehabilitation for rental properties	36	35	30	101
New construction on vacant lots	25	58	19	101
Housing counseling	25	44	33	102
Services in non-English languages	26	32	44	102

Respondents that live in the City of Minneapolis responded that rehabilitation of rental properties and home owner repair were the most needed housing services in their neighborhoods.

Appendix: Definitions

Affordability Gap Financing

A forgivable or deferred loan that finances the difference between the appraised value of a house and what a homebuyer can afford to pay. In Minneapolis affordability gap financing typically requires homebuyers to live in the home for five years and offered to homebuyers with an income below 120% of area median income.

Area Median Income (AMI)

This measurement is calculated and used by The U.S. Department of Housing and Urban Development (HUD), who is required by law to set income limits that determine the eligibility of applicants for HUD's assisted housing programs. The income limits are expressed as a percentage of the Median Family Income (MFI) and are adjusted by metropolitan area and household size. The table below is the 2014 Fiscal Year HUD Income Limit for the area labeled Minneapolis-St. Paul-Bloomington, MN.

Area Median Income	1 person	2 person	3 person	4 person
50% AMI or below (very low income)	\$29,050	\$33,200	\$37,350	\$41,450
80% AMI (low income)	44,750	51,150	57,550	63,900
120% AMI (moderate income)	69,720	79,680	89,640	99,480

Blight Removal

Blight removal is the acquisition and demolition of vacant, abandoned structures that are determined to be infeasible to rehab.

First Mortgage Financing

The City of Minneapolis used several programs to provide first mortgage financing incentives and loans to homebuyers. The programs were funded with tax-exempt bonding authority.

Green Homes North Program

An initiative to construct 100 new construction homes in North Minneapolis within 5 years. Homes are certified through Enterprise Green Communities or similar green certification programs. The initiative was launched in 2012.

Home Ownership Works Program (HOW)

Program established by the City of Minneapolis that is funded through HOME funds. Vacant or abandoned buildings are purchased and rehabilitated or new homes are constructed on vacant lots through the program to stabilize communities. Funds are allocated annually.

Minneapolis Advantage Program

A discontinued program that provides down-payment and closing cost assistance to purchasers in the City of Minneapolis. The program was funded through a variety of sources from 2008-2014, including foundation, federal, and state funds.

Neighborhood Stabilization Program (NSP)

Program established by the U.S. Department of Housing and Urban Development (HUD) to purchase and redevelop foreclosed and abandoned homes to stabilize communities hardest hit by the foreclosure crisis. There were three rounds of funding; NSP 1, NSP 2, and NSP 3.

Value Gap Financing (Homeownership)

A forgivable loan that covers the difference between total development costs to construct or rehabilitate a project and what the project is worth when it is completed. Value gap financing is forgiven if the home is sold to the homeowner for less than cost to construct or rehabilitate it.

Value Gap Financing (Rental)

For rental properties, value gap financing is a forgivable loan that ensures rental units remain affordable and to income qualified tenants for 15 years. If the project is refinanced or sold during the 15 year affordability period, the loan is repaid.

Residential & Real Estate Development Demographic Analysis of Housing Investments 2008-2014

April 6, 2016

Contents

Executive Summary	1
Key Highlights	1
Moving Forward	2
Overview of Investments	3
Demographic Analysis	5
PURPOSE	5
Data sources & Process	5
WHO WE SERVED.....	6
Value GAP financing - ownership	6
Value GAP financing – RENTAL	8
Affordability Gap - HOMEOWNERSHIP	10
Looking Ahead	11
Definitions	12
Value Gap	12
Affordability Gap	12
Area Median Income (AMI)	12
Race/Ethnicity.....	13
Value Gap Financing – Ownership	14
Value Gap Financing – Rental	17
Affordability Gap Financing – Ownership	19

Executive Summary

Residential & Real Estate Development (RRED) played a significant role in Minneapolis's foreclosure recovery and neighborhood stabilization efforts. Over the last 8 years, the City invested \$115 million in neighborhood stabilization efforts to address blight, build and rehabilitate affordable housing, maintain existing owner occupied homes, and provide new homeownership opportunities. RRED directly invested \$40 million into low density (eight or fewer units) residential projects including both rental and ownership.

KEY HIGHLIGHTS

The investments made by RRED were guided by the comprehensive 3 Point Plan for Foreclosure Recovery and Neighborhood Stability. Investments were clustered in neighborhoods with the highest concentration of mortgage foreclosures and households living in poverty. Through partnerships with numerous community-based organizations, developers, and City departments the investments served over 900 families in the City of Minneapolis. These investments enabled over 700 families to become homeowners and produced over 400 new or renovated quality rental and homeownership units, allowing low and moderate income families to build wealth and increase family stability. Key highlights of the households served are summarized below:

Homeownership Construction or Renovation

- 60% of new homeowners purchasing homes constructed or renovated with RRED funding were households of color, helping to reduce racial equity disparity gaps in homeownership.
- Developers that offered extensive pre-purchase counseling or atypical financing options had a proportionally higher rate of service to communities of color (83% rate of service) than developers that relied on conventional financing.
- In areas of concentrated poverty, 27% of homeowners had income over 80% of AMI and 37% had income between 50% and 80% AMI. Attracting moderate income households and building wealth for low-income households in areas of concentrated poverty can help stabilize a neighborhood.
- Existing Minneapolis residents were the primary recipients of homes constructed or renovated with RRED investments (70%).

Down payment Assistance

- Nearly 40% of homeowners that received down payment assistance were households of color.
- A majority of recipients were households with an income at or below 80% of AMI (67%).
- 67% of households that received down payment assistance were previous Minneapolis residents, and 33% were residents that moved into Minneapolis typically from another city in the metropolitan area.

Scattered Site, Low-Density Rental

- 80% of households in RRED rental projects were Black/African American households and the remainder were White/Caucasian; very few American Indian, Asian/Pacific Islander, and Hispanic households were served by rental housing.
- 100% of recipients had household incomes at or below 50% of area median income (AMI).
- Rental units were more likely to be occupied by existing Minneapolis residents (88% of renters).

MOVING FORWARD

RRED saw tremendous impact from its investments over the last eight years. Federal stimulus dollars and mortgage revenue bonds provided substantial resources to stabilize neighborhoods and the housing market by significantly increasing the resources available to the City of Minneapolis. With the depletion of these funding sources, continuation of neighborhood stabilization is paramount. The demographic analysis of RRED past investments has resulted in several recommendations to inform the City as it looks to invest limited resources in the future.

1. **Leverage homeownership investments with financial wrap-around services to promote increased rates of homeownership for people of color in Minneapolis.** Participants in programs with additional financial services were five times more likely to be people of color than those served by programs without these additional services.
2. **Promote mixed incomes within areas of concentrated poverty.** Promoting homeownership and deconcentrating poverty build neighborhood stability. RRED can utilize its investments to promote these desired outcomes.
3. **Standardize and streamline the collection of demographic data.** The demographic analysis provided many valuable insights into the program and the success of RRED's strategies. It also inconsistencies with data collection and reporting between programs that, if addressed, will allow RRED to more easily replicate the analysis on an ongoing basis.

Overview of Investments

The City of Minneapolis was hit hard by the foreclosure crisis and subsequent economic recession that began in late 2007¹. The recession had profound implications on the City's housing market. As foreclosures peaked, housing demand decreased and home values rapidly fell. Neighborhoods were left with high vacancy rates that often led to significant blight issues. Foreclosures were concentrated in already vulnerable areas that had high concentrations of low-income households particularly North and South Minneapolis.

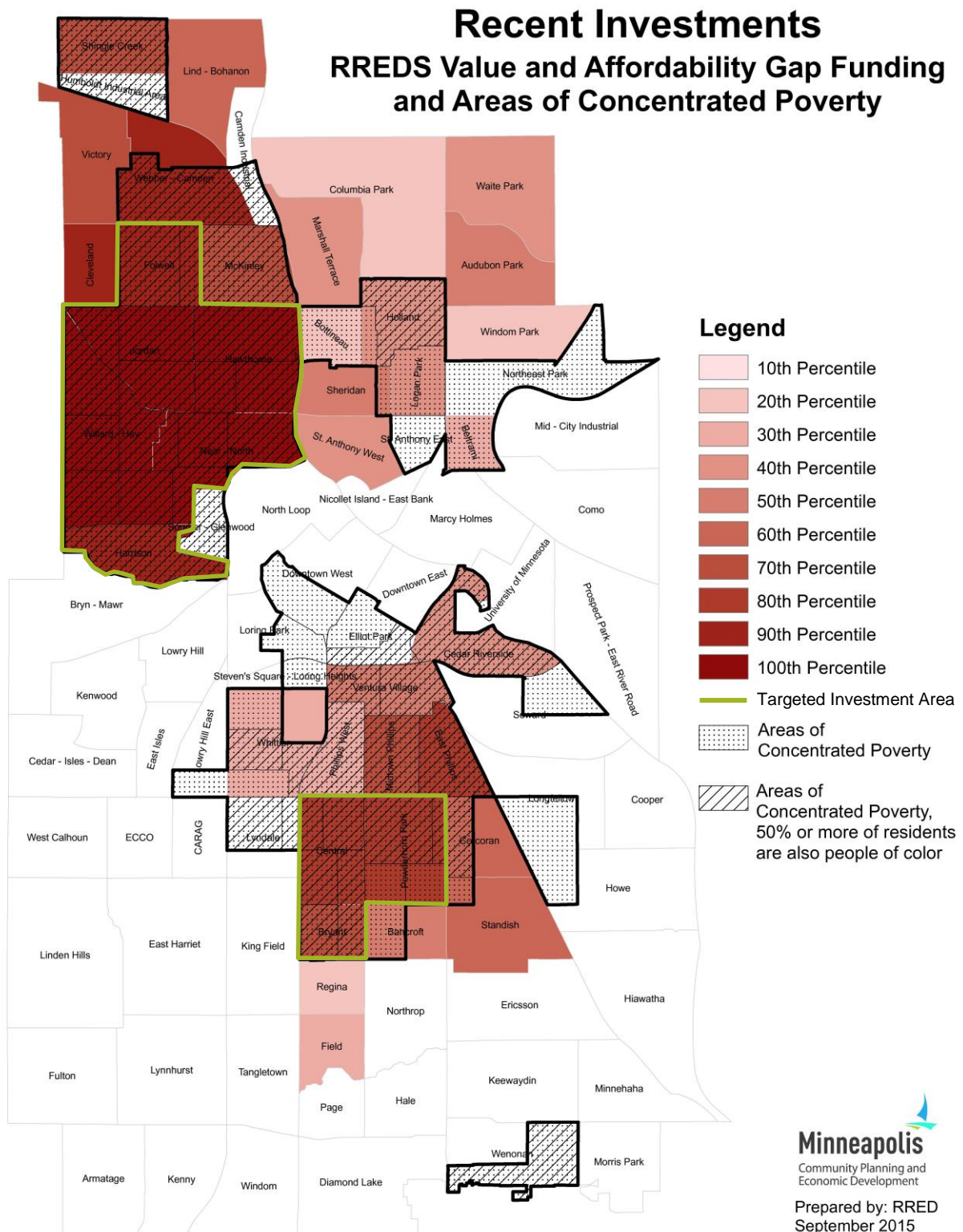
From 2008 to 2014, the City of Minneapolis invested \$115 million in neighborhood stabilization efforts to address blight, build and rehabilitate affordable housing, maintain existing owner occupied homes, and provide new homeownership opportunities. The Community Planning & Economic Development department (CPED) implemented a neighborhood investment strategy called the *3 Point Plan for Foreclosure Recovery and Neighborhood Stability* focused on prevention, reinvestment and repositioning. The resulting strategies focused on housing development, down payment assistance, mortgage financing, blight reduction and other revitalization measures. Within CPED, the Residential & Real Estate Development (RRED) work unit leads the redevelopment of single and low density multi-family residential properties by administering several incentive programs including value-gap and affordability gap funding. RRED played a significant role in the City's foreclosure recovery efforts and neighborhood stabilization investing \$40 million over 8 years.

Based on the 3 Point Plan for Foreclosure Recovery and Neighborhood Stability, RRED focused a majority of its investments in nine neighborhoods. These nine neighborhoods had the highest concentration of mortgage foreclosures and households living in poverty.

- North Minneapolis: Folwell, Jordan, Hawthorne, Willard-Hay, Near North, and Harrison
- South Minneapolis: Central, Powderhorn Park, and Bryant.

RRED utilized both value and affordability gap financing to support homeownership. Value gap financing included forgivable loans to close the gap between construction costs and the value of the property and construction financing repaid upon sale of the property to a homeowner. Affordability gap financing reduce the cost of purchasing a home to the homeowner by providing down payment assistance.

¹ www.minneapolisfed.org/publications/special-studies/rip/recession-in-perspective



Nine Neighborhoods were targeted with RRED investments. These neighborhoods also corresponded with areas of concentrated poverty where the majority of residents were people of color.

Demographic Analysis

The demographic analysis for this report focuses on the \$40 million of incentives provided by RRED for owner-occupied and rental development from 2008 to 2014. The analysis looked at demographic information for the following programs administered by RRED: Green Homes North (GHN), the federally funded Neighborhood Stabilization Program, Minneapolis Advantage, and Homeownership Works (HOW).

PURPOSE

- Provide an analysis of the clients served by the RRED investments.
- Develop strategies that support CPED's 2014-2017 Business Plan objectives including the reduction of racial disparities in homeownership and affirmatively furthering fair housing.

DATA SOURCES & PROCESS

RRED recorded demographic information for affordability gap incentives provided directly to recipients. RRED also provided value gap financing to private and non-profit developers that were responsible for tracking and reporting demographic information on the final occupants of the development projects.

Demographic data was reported by the following developers:

- Greater Metropolitan Housing Corporation
- Powderhorn Residents Group
- Neighborhood Housing Service
- Urban Homeworks
- City of Lakes Community Land Trust
- Project for Pride in Living
- Alliance Housing
- Twin Cities Habitat for Humanity

Demographic information was identified for a majority of households in the rental and homeownership units. However, information was not available for 267 of the 964 units. Some of the homes for sale had not been purchased at the time of this analysis and participants could decline to provide the information. The analysis in this report includes only the recipients for which data was collected.

WHO WE SERVED

Understanding the profile of applicants served through RRED investments will help CPED develop strategies to achieve its goals as laid out in the 2014-2017 Business Plan, specifically:

- Reduce racial inequities and provide high quality housing.
- Provide affordable housing choices for all ages, incomes and circumstances.

This demographic analysis provides an overview of who was served by the RRED investments from 2008-2014 through the home ownership and rental investment programs.

VALUE GAP FINANCING - OWNERSHIP

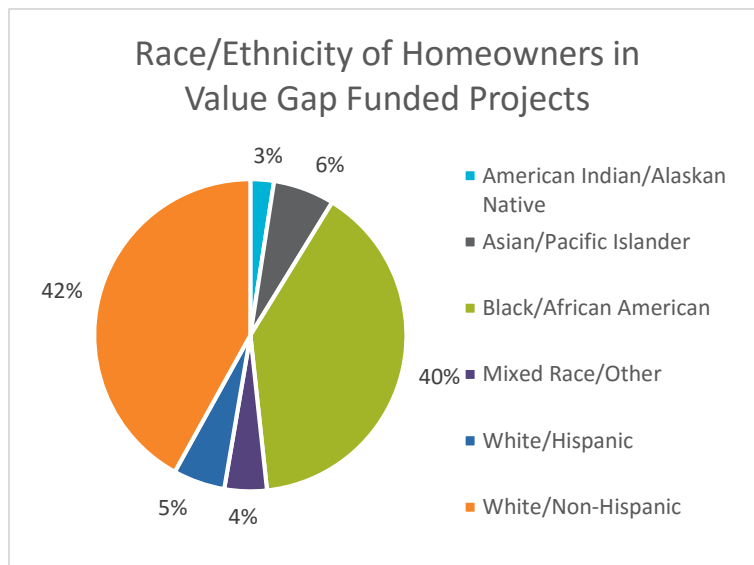
Value gap financing for homeownership projects covers the difference in cost between the final appraised value of the home and the cost of the construction or renovations. Value gap financing created 277 homes to be purchased by homeowners. Of the new homeowners that purchased these homes, 175 homeowners also received affordability gap assistance such as down payment assistance. At the time of this study, only a portion of the homes were sold.

Race/Ethnicity

A majority of new homeowners purchasing homes renovated or constructed with value gap financing were households of color (60%). Forty percent of homeowners were Black/ African-American. People of color in Minneapolis have a lower rate of homeownership when compared to White/non-Hispanic residents (Source: MN COMPASS). RRED investments helped to address the racial disparity of homeownership for people of color.

In the nine neighborhoods where RRED investments were the highest, 94% of homeowners were people of color. This corresponds with the demographics of these neighborhoods. These nine neighborhoods are also areas of concentrated poverty. RRED homeownership investment in areas of concentrated poverty can help to address the economic disparities seen in these neighborhoods as it builds wealth and family stability.

This analysis found that homeownership investments were most successful at serving people of color when they were utilized by organizations that proactively address credit and financial barriers such as Urban Homeworks (UHW), City of Lakes Community Land Trust (CLCLT), and Habitat for Humanity (HH). These organizations have programs that provide additional supportive assistance to buyers; for example pre-purchase counseling, lease to own program and internal financing products that ensure mortgages are no more than 30% of a household's income. They also conduct targeted marketing/outreach of their holistic service delivery model within Minneapolis' most racially diverse neighborhoods. 83% of the homeowners served by these types of organizations were African American compared to only 17% of homeowners served by organizations without these programs. Without the financial intervention services, the rate of ownership roughly mirrors the disparate rate in communities of color throughout the Twin Cities region (Source: MN COMPASS).



Case Study #1: New Construction



Project Description

Twin Cities Habitat for Humanity constructed a new sustainable home to provide an affordable housing opportunity to a Minnesotan family. Habitat for Humanity projects are typically constructed through volunteer labor, donated materials, and support from corporate and public sponsors. Habitat finances 100% of the construction cost for a home and provides families with a 0% interest mortgage that only requires families to pay 30% of their annual income as a mortgage payment. Several homes were constructed through the Green Homes North program. The home on the left is a net-zero energy home. All homes constructed through Green Home North are Enterprise Green Communities Certified. Funding for these homes received including a variety of sources including Neighborhood Stabilization Program (NSP) financing, HOME and GHN financing.

Project Description

A and S (names changed to protect individual's identity) became first time homeowners through the Habitat for Humanity program. A was born and raised in Somalia and came to the USA in 1998. S, his wife, was born and raised in Minnesota. They have five children. Abdi is a loan officer at Wells Fargo and also works part time at the Children's Museum. He typically works 7 days a week. S is enrolled in a Dental Assistant program at Minneapolis Community and Technical College and cares full time for the children in the house. A and S participated in building their home as Habitat volunteers, contributing 350 hours of sweat equity toward the project. They love that their new home is close to public transit options to get to school and work, allowing them to save not only on their energy bills but on parking and gas.

Income and Household Profile

The median income in the City of Minneapolis is \$82,900. All RRED value gap investments served households with income at or below 120% of the Area Median Income (AMI) adjusted by family size. The average income of new homeowners in value gap financed homes was \$45,500. 36% of households had income at or below 50% of AMI.

As illustrated on the RRED investment map (pg.4), the nine neighborhoods where RRED investments were concentrated also corresponded with areas of concentrated poverty. In these nine neighborhoods, 27% of homeowners had income between 80% and 120% AMI and 42% had income below 50% AMI.

When compared to rental units, homeownership units (70%) were slightly more likely to attract new residents from other communities. 70% of homeowners in were from Minneapolis.

A majority of households served were 1-2 person households (51%). Homeowners with income 50% of AMI or lower had larger households (4 members on average) than homeowners with income over 50% of AMI. 29% of households were headed by females. The homeowners were younger, with 73% of recipients between the ages of 20-39 years of age. Only 2% of homeowners were older than 60 years of age with the remaining 25% between 40-59 years of age.

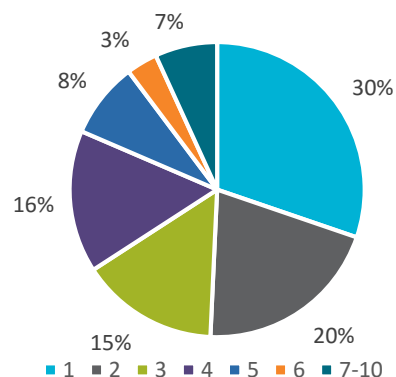
VALUE GAP FINANCING – SCATTERED SITE RENTAL

RRED provided value gap financing to private developers to renovate or construct 152 rental units between 2008-2014 that were less than 8 units on non-contiguous sites and financed with NSP funding. Affordability requirements limits the amount of rent that can be charged. Value gap financing for these projects covers the gap between the amount of debt service on the project's finished units and the amount paid by rent. The units will remain affordable to families at or below 50% of area median income for 15 years. The City of Minneapolis also provides financing for larger projects of 8 units or more through other sources that were not analyzed in this report.

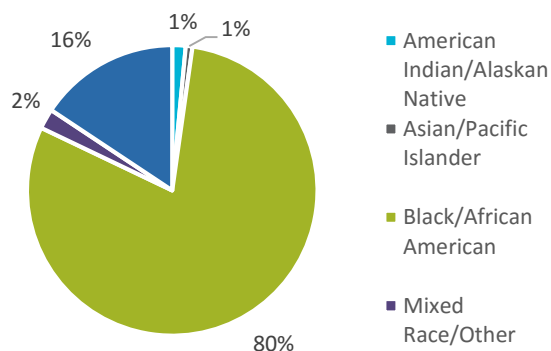
Race/Ethnicity

Rental units financed by RRED investments primarily served African Americans (80%). White/Non-Hispanic comprised 16% of the rental units. Unlike homeownership investments, rental investments primarily served people of color regardless of the concentration of investments made by RRED investments.

Household Size of Homeowners in Value Gap Funded Projects



Race/Ethnicity of Renters in Value Gap Funded Projects



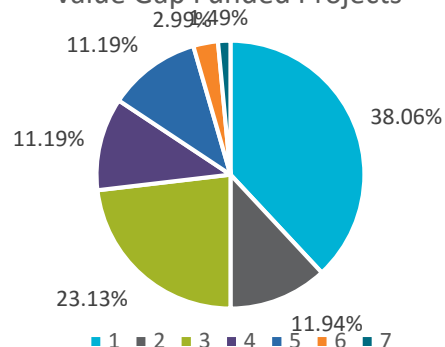
Income and Household Profile

All of the occupants of rental units had household incomes at or below 50% AMI and 73% had income at or below 30% AMI.

61% of households in the rental units had 1 or 3 members (38% and 23% respectively). Rental units were more likely to serve current Minneapolis residents than homeownership investments 83% of the rental units were occupied by current Minneapolis residents.

Information on age and female heads of households was not collected for rental projects.

Household Size of Rental Units for Value Gap Funded Projects



Case Study #2: Rental Units



Photo Credit: Alliance Housing

Project Description

Alliance Housing rehabilitated various multifamily units in order to provide supportive housing that helps families leave generational poverty. The tenants who move into the rental units are provided with job training and skill development. Families engaged in the program show an average wage increase from \$8/hour to \$14/hour after three years of participation in the program, which often is the longest housing stability and job tenure for program participants. These projects were awarded value gap assistance through NSP.

Who Was Served

Vicky (name changed to protect individual's privacy) moved into a homeless shelter with her five children when Child Protective Services threatened to take her children because of abuse by her partner. She and her children moved into an Alliance three bedroom apartment in November 2013. By March, Vicky began a job as a receptionist at Hennepin County Medical Center for \$15.11 an hour and by June she had earned her GED. Her children's behavior is improved and they have a regular dinner and bedtime schedule, as well as lots of family time during the weekend.

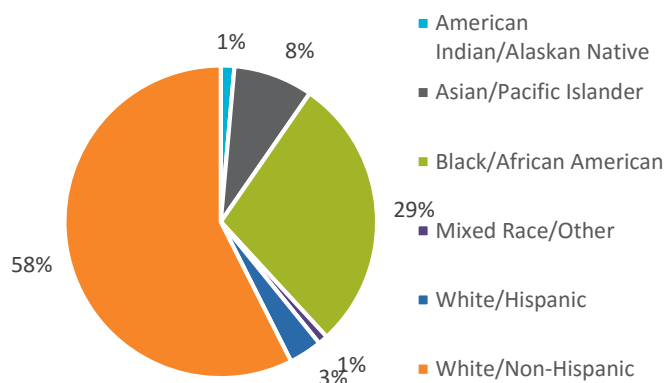
AFFORDABILITY GAP - HOMEOWNERSHIP

Affordability gap financing helps households purchase a home by filling the gap between the appraised value of a home and what the interested purchaser can afford. Down payment assistance programs funded by RRED assisted 710 homeowners in purchasing a home.

Race/Ethnicity

Unlike value gap financing that was more likely to be in the 9 RRED target neighborhoods, affordability gap financing was spread across the city and served fewer households of color. A majority of the households that utilized the down payment assistance programs were White/Non-Hispanic (58%). 42% of recipients were households of color. When affordability gap was paired with value gap financing, households of color were more likely to be served, representing 52% of recipients.

Race/Ethnicity for Affordability Gap Recipients – By Household



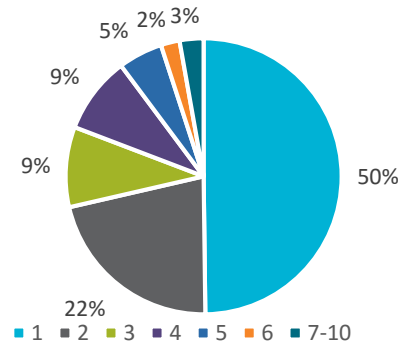
Income and Household Profile

Down payment assistance was primarily utilized by households with an income at or below 80% of AMI, representing 67% of recipients. The average income of new homeowners that received down payment assistance was \$45,300.

Down payment assistance was primarily accessed by current Minneapolis residents (67%). This rate is slightly lower than homeowners in value gap funded homes.

A majority of households served were 1-2 person households (71%). 37% of households were female head of households. The primary homeowners were likely to be younger, with 72% of recipients between the ages of 20-39 years of age. Only 3% of homeowners were older than 60 years of age with the remaining 25% between 40-59 years of age.

Household Size of Affordability Gap Funded Projects



Looking Ahead

This demographic analysis is intended to provide an overview of the population served through RRED investments and inform the development of future policy for low-density residential projects. Based on this analysis, the following recommendations should be considered.

Addressing Racial Disparities: Leverage homeownership investments with financial wrap-around services to promote increased rates of homeownership for people of color in Minneapolis.

The reduction of racial disparity rate for homeownership is an identified goal in the CPED 2014-2017 business plan. This analysis found that homeownership projects completed by organizations that proactively addresses credit and financial barriers were 5 times as likely to serve people of color as organizations without similar programs. The 2012 MN COMPASS report found people of color experience a disparity in homeownership when compared to whites, due in part to lower incomes, credit challenges, and racism. To help support the department's goal, RRED can look at aligning its investments with programs that provide these financial services and leverage other sources of funding, such as CDBG, to support similar programs.

Areas of Concentrated Poverty: RRED should continue to diversify incomes in areas of concentrated poverty, stabilize housing markets and increase household financial stability by promoting homeownership.

This demographic analysis revealed that a majority of investments occurred in areas of concentrated poverty. RRED investments both attracted moderate income households and built wealth for low-income households in areas of concentrated poverty. These investments can help to stabilize a neighborhood by attracting moderate income households to diversify the income base of residents and provide financial stability to low-income households.

Program Administration: Standardize and streamline the collection of demographic data.

Gathering the data from several different housing programs for this demographic analysis highlighted issues with the currently reporting and data management process. Collection practices varied, presenting a challenge for a standardized analysis of outcomes. Collecting the same demographic and outcome data across all CPED programs is recommended for future projects. Reporting requirements and format should be reviewed by staff to standardize the language, ensure all needed information is collected, and create an easier process to collect and analyze the information. Developing a system with clear definitions for all terms, restricted data entry measures and a standardized analysis process would improve the department's ability to analyze the impact and effectiveness of programs in the future.

Definitions

Value Gap

Value gap financing is a forgivable loan that finances the difference between the total development cost to construct or rehabilitate a project and its appraised value upon completion. In other words, value gap finances the difference between what it costs to construct or rehabilitate a project and what the project is worth when it's done. Value gap financing is typically forgiven once a home is constructed or rehabilitated and sold to a homeowner. Typically, value gap financing is required when market values within a neighborhood are depressed and/or when housing conditions are poor.

For rental properties, value gap financing is typically structured as a 0% interest loan that covers the difference between how much it costs to rehab or construct the rental project and the amount of debt service unit rents in the project can pay for. The value gap financing remains in place until the project is sold or refinanced. Typically value gap financing for rental projects results in an affordability period of 15 to 30 years. During the affordability period, landlords are required to ensure that the rental units financed with City of Minneapolis financing remain affordable and continue to be leased by income qualified tenants.

Affordability Gap

Affordability gap financing is a forgivable or deferred loan that finances the difference between the appraised value of a house and what a homebuyer can afford to pay. Affordability gap financing is typically provided in order to help homebuyers with an income below 120% of area median income with the closing costs, fees, and down payment requirements related to purchasing a home. Affordability gap financing typically requires that a home remain owner occupied for an affordability period that is set based on the amount of assistance provided to the purchaser; typically 5 years for City of Minneapolis programs.

Area Median Income (AMI)

Percentage of Area Median Income is the measurement used in this report to analyze the incomes of the households served by RRED. This measurement is calculated and used by The Department of Housing and Urban Development (HUD), who is required by law to set income limits that determine the eligibility of applicants for HUD's assisted housing program². The income limits are expressed as a percentage of the Median Family Income (MFI) and are adjusted by metropolitan area and household size. The table below is the 2014 Fiscal Year HUD Income Limit for the area labeled Minneapolis-St. Paul-Bloomington, MN. For example, in 2014, the MFI of a four person household living in Minneapolis was \$82,900. If a specific four person household in Minneapolis made \$44,800, the income limit would be measured as 51%-60% AMI.

² <http://www.huduser.org/portal/datasets/il/il14/index.html>

2014 HUD Income Limits								
Minneapolis-St. Paul-Bloomington, MN (MFI \$82,900)								
	1 person	2 person	3 person	4 person	5 person	6 person	7 person	8 person
30% or below	\$ 17,400	\$ 19,900	\$ 22,400	\$ 24,850	\$ 27,910	\$ 31,970	\$ 36,030	\$ 40,090
31%-50%	\$ 29,050	\$ 33,200	\$ 37,350	\$ 41,450	\$ 44,800	\$ 48,100	\$ 51,400	\$ 54,750
51%-60%	\$ 34,860	\$ 39,840	\$ 44,820	\$ 49,740	\$ 53,760	\$ 57,720	\$ 61,680	\$ 65,700
61%-80%	\$ 44,750	\$ 51,150	\$ 57,550	\$ 63,900	\$ 69,050	\$ 74,150	\$ 79,250	\$ 84,350
81%-120%	\$ 69,650	\$ 79,600	\$ 89,550	\$ 99,500	\$ 107,450	\$ 115,400	\$ 123,350	\$ 131,300

Race/Ethnicity

Part of the analysis was to look at race demographics. We obtained racial data from application documents (in the case of affordability gap financed projects) and spreadsheets reported by developers (in the case of value gap financed projects). The categories of the race that these sources provided were most similar to the race categories defined by the US Census³. The graphs used in this analysis do distinguish between Hispanic/Latino and White/Non-Hispanic. However, it is important to note that the identification of race is separate from the identification of Hispanic ethnicity.

³ These definitions can be accessed here: http://quickfacts.census.gov/qfd/meta/long_RHI125213.htm

Data Tables

Data collection practices varied across programs and in some cases participants could refuse to answer. Sometimes the absence of data was because a unit was not yet sold or occupied. The demographics of recipients was determined based on available data. Information was not available for 267 of the 964 recipients.

Value Gap Financing – Ownership

Race/Ethnicity of Homeowners in Value Gap Funded Projects		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	5	2%
Asian/Pacific Islander	13	6%
Black/African American	81	40%
Mixed Race/Other	9	5%
White/Hispanic	11	5%
White/Non-Hispanic	86	42%
Respondent Total	205	
<i>Not Determined</i>	72	
<i>Total Served</i>	277	

Previous Residence of Homeowners in Value Gap Funded Projects		
Previous Residency	# of Units	% of Total
Resident outside of Minneapolis	57	30%
Resident of Minneapolis	131	70%
Total	188	
<i>Not Determined</i>	89	
<i>Total Served</i>	277	

Race/Ethnicity of Homeowners in Value Gap Funded Projects Completed by Developers WITH Supportive Services		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	2	3%
Asian/Pacific Islander	2	3%
Black/African American	52	72%
Mixed Race/Other	3	4%
White/Hispanic	1	1%
White/Non-Hispanic	12	17%
Total	72	
<i>Not Determined</i>	9	
<i>Total Served without Supportive Services</i>	196	
<i>Total Served</i>	277	

Race/Ethnicity of Homeowners in Value Gap Funded Projects Completed by Developers WITHOUT Supportive Services

Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	3	2%
Asian/Pacific Islander	11	8%
Black/African American	29	22%
Mixed Race/Other	6	4%
White/Hispanic	10	8%
White/Non-Hispanic	74	56%
Total	133	
<i>Not Determined</i>	63	
<i>Total Served without Supportive Services</i>	<i>196</i>	

Race/Ethnicity of Homeowners in Value Gap Funded Projects in Areas of Concentrated Investment

Race/Ethnicity	# of Units	% of Total
Asian/Pacific Islander	12	8%
Black/African American	64	44%
Mixed Race/Other	5	4%
White/Hispanic	8	6%
White/Non-Hispanic	55	38%
Total	144	
<i>Not Determined</i>	50	
<i>In areas of non-Concentrated Investment</i>	83	
<i>Total Served</i>	<i>277</i>	

Income and Household Size for Household Value Gap Funded Projects

Income Range	# of Units	% of Total	Average Household Size
30% AMI or below	13	6%	3.5
31%-50% of AMI	61	30%	3.8
51%-60% of AMI	28	14%	3.4
61%-80% of AMI	46	23%	2.8
81%-120% of AMI	54	27%	1.8
61-80% of AMI	1	0%	3
Total	203		3
<i>Not Determined</i>	74		
<i>Total Served</i>	<i>277</i>		

Income and Household Size for Household Value Gap Funded Projects in Areas of Concentrated Investment

Income Range	# of Units	% of Total
30% or below	7	5%
31%-50%	51	36%
51%-60%	19	13%
61%-80%	27	19%
81%-120%	37	26%
61-80%	1	1%
Total	142	
<i>Not Determined</i>	52	
<i>In areas of non-Concentrated Investment</i>	83	
<i>Total Served</i>	277	

Household Size for Household Value Gap Funded Projects

Household Size	# of Units	% of Total
1	62	30%
2	42	21%
3	31	15%
4	32	16%
5	17	8%
6	7	3%
7	4	2%
8	6	3%
9	2	1%
10	2	1%
Total	205	
<i>Not Determined</i>	72	
<i>Total Served</i>	277	

Female Head of Household for Homeowners in Value Gap Funded Projects

Head of Household	# of Units	% of Projects
Non-female head of household	144	71%
Female Head of House	60	29%
Total	204	
<i>Not Determined</i>	73	
<i>Total Served</i>	277	

Homeowner Age for Household Value Gap Funded Projects		
Age Range	# of Units	% of Total
20-29	32	34%
30-39	37	39%
40-49	15	16%
50-59	9	9%
60+	2	2%
Total	95	
<i>Not Determined</i>	182	
<i>Total Served</i>	277	

Value Gap Financing – Rental

Race/Ethnicity of Renters in Value Gap Funded Projects		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	2	1%
Asian/Pacific Islander	1	1%
Black/African American	107	80%
Mixed Race/Other	3	2%
White/Non-Hispanic	21	16%
Total	134	
<i>Not Determined</i>	18	
<i>Total Served</i>	152	

Race/Ethnicity of Renters in Value Gap Funded Projects in Areas of Concentrated Investment		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	2	2%
Asian/Pacific Islander	1	1%
Black/African American	97	81%
Mixed Race/Other	3	2%
White/Non-Hispanic	17	14%
Total	120	
<i>Not Determined</i>	16	
<i>Served in non-concentrated areas</i>	16	
<i>Total Served</i>	152	

Income and Household Size for Rental Value Gap Funded Projects		
Income Range	# of Units	% of Total
30% or below	98	73%
31%-50%	36	27%
Total	134	
<i>Not Determined</i>	18	
<i>Total Served</i>	152	

Income For Rental Value Gap Funded Projects in Neighborhoods of Concentrated Investment		
Income Range	# of Units	% of Total
30% or below	86	72%
31%-50%	34	28%
Total	120	
<i>Not Determined</i>	16	
<i>Served in non-concentrated areas</i>	16	
<i>Total Served</i>	152	

Household Size for Rental Value Gap Funded Projects		
Household Size	# of Units	% of Total
1	51	38%
2	16	12%
3	31	23%
4	15	11%
5	15	11%
6	4	3%
7	2	1%
Total	134	
<i>Not Determined</i>	18	
<i>Total Served</i>	152	

Previous Residence for Renters in Value Gap Funded Projects		
Previous Residency	# of Units	% of Total
Resident outside of Minneapolis	15	12%
Resident of Minneapolis	106	88%
Total	121	
<i>Not Determined</i>	31	
<i>Total Served</i>	152	

Affordability Gap Financing – Ownership

Race/Ethnicity of Households in Affordability Gap Funded Projects		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	7	1%
Asian/Pacific Islander	41	8%
Black/African American	142	29%
Mixed Race/Other	5	1%
White/Hispanic	17	3%
White/Non-Hispanic	286	58%
Total	498	
<i>Not Determined</i>	212	
<i>Total Served</i>	710	

Race/Ethnicity of Households for Projects Receiving Affordability Gap in Value Gap Funded Projects		
Race/Ethnicity	# of Units	% of Total
American Indian/Alaskan Native	3	2%
Asian/Pacific Islander	9	6%
Black/African American	46	33%
Mixed Race/Other	4	3%
White/Hispanic	11	8%
White/Non-Hispanic	67	48%
Total	140	
<i>Not Determined</i>	35	
<i>Homeowners</i>	535	
<i>Total Served</i>	710	

Previous Residence of Homeowners in Affordability Gap Funded Projects		
Previous Residency	# of Units	% of Projects
Resident outside of Minneapolis	145	33%
Resident of Minneapolis	290	67%
Total	435	
<i>Not Determined</i>	275	
<i>Total Served</i>	710	

Income of Households in Affordability Gap Funded Projects		
Income Range	# of Units	% of Total
30% or below	33	7%
31%-50%	114	23%
51%-60%	64	13%
61%-80%	121	25%
81%-120%	166	33%
61-80%	1	0%
Total	499	
<i>Not Determined</i>	211	
<i>Total Served</i>	710	

Household Size for Affordability Gap Funded Projects		
Household Size	# of Units	% of Total
1	249	50%
2	108	22%
3	47	10%
4	45	9%
5	26	5%
6	11	2%
7	7	1%
8	4	1%
9	1	0%
10	2	0%
Total	500	
<i>Not Determined</i>	210	
<i>Total Served</i>	710	

Female Head of Household for Homeowners in Affordability Gap Funded Projects		
Head of Household	# of Units	% of Projects
Non-female head of household	317	63%
Female Head of House	184	37%
Total	501	
<i>Not Determined</i>	209	
<i>Total Served</i>	710	

Homeowner Age for Household Value Gap Funded Projects		
Age Range	# of Units	% of Total
19 & lower	2	0%
20-29	161	36%
30-39	158	36%
40-49	69	16%
50-59	39	9%
60+	13	3%
Total	442	
<i>Not Determined</i>	268	
<i>Total Served</i>	710	